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GOVERNMENT OF INDIA
MINISTRY OF FINANCE
NEW DELHI

CONTENTS

INTRODUCTION

The report reviews the activities of the Ministry of Finance during the year 2005-2006. The Ministry is responsible for the administration of the finances of the Central Government. It is concerned with 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 to States. This chapter gives a synoptic view of the important activities of the Ministry during the year 2005-2006.

The Ministry comprises of four Departments namely:-

I. Department of Economic Affairs;

II. Department of Expenditure;

III. Department of Revenue; and

IV. Department of Disinvestment.

I. DEPARTMENT OF ECONOMIC AFFAIRS

Economic Growth

The Central Statistical Orgainsation (CSO), which compiles national accounts statistics, has introduced a new series with base year 1999-2000 in place of the previous series with base year 1993-94. The economy continued with the growth momentum of the previous year with the quick estimates indicating overall growth rate of 7.5 per cent in Gross Domestic Product (GDP) at factor cost at constant 1999-2000 prices in 2004-05 compared to 6.9 per cent as per the revised estimates at 1993-94 prices in 2004-05 and 8.5 percent in the previous year. As per the quick estimates of 2004-05, the agriculture and allied, industry and services sectors grew by 0.7 percent, 8.6 percent and 9.9 percent respectively, compared to 10.0 percent, 7.6 percent and 8.2 percent respectively in the previous year. This indicates the resilience of the economy to adjust to weather induced shocks.

The real growth of 7.5 per cent in GDP during 2004-05 has been achieved due to growth in mining & quarrying (5.8%), manufacturing (8.1%), construction (12.5%), trade, hotels & restaurants (8.1%), transport, storage & communication (14.8%), financial services (9.2%) and community, social & personal services (9.2%). However, agriculture and allied sector registered lower growth of 0.7 per cent in 2004-05.

The quarterly estimates, at 1993-94 prices, released by the Central Statistical Organisation indicate the real growth of GDP in the first (April-June) and second (July-September) quarters of 2005-06 at 8.1 per cent and 8.0 per cent, respectively, compared with a growth of 7.6 per cent and 6.7 per cent, respectively in the corresponding quarters of the previous year. The overall growth during April-September 2005-06 is estimated at 8.1 per cent compared with 7.1 percent in the corresponding period of the previous year. In the first half of 2005-06, growth of agriculture and allied, industry and service sectors is estimated at 2.0 per cent, 8.6 per cent and 10.0 per cent respectively compared with the sectoral growth rates of 2.1 per cent, 7.6 per cent and 8.8 per cent, respectively, in the corresponding period last year.

In 2004-05, as per the quick estimates, the savings rate and investment rate are higher than in the previous year. As percentage of GDP at current market prices, gross domestic savings has improved from 28.9 per cent in 2003-04 to 29.1 per cent in 2004-05, and gross domestic capital formation from 27.2 per cent in 2003-04 to 30.1 per cent in 2004-05.

Developments in Prices Inflation and Agriculture

Annual point-to-point inflation rate in terms of Wholesale Price Index (WPI) increased from 4.6 per cent in 2003-04 to 5.1 percent in 2004-05. The year 2005-06 started with an inflation rate of 5.7 per cent on April 2, 2005, which was followed by a declining trend until August 27, 2005 when it reached a intra-year low of 3.3 per cent. Thereafter, the inflation rate rose steadily and it remained below 5 per cent. As on January 21, 2006 it was significantly lower at 4.5 per cent than 5.4 per cent recorded a year ago. The 52-week average inflation rate recorded lower at 4.7 per cent on January 21, 2006 as compared to 6.5 per cent last year. Inflation rates for both manufactured products and fuel, power, light & lubricants were at 2.8 per cent and 7.9 per cent, respectively as on January 21, 2006 compared with 5.4 per cent and 10.2 per cent respectively a year ago. However, inflation rate of primary articles recorded higher at 5.7 per cent than 1.0 per cent recorded a year ago.

In sharp contrast to the WPI, the CPI inflation had been stable and moderate. This is because food items constitute higher weights in CPI than in WPI and in general the price increases of these items has been moderate both in the last year and the current year. Average CPI inflation at 3.8 per cent in 2004-05 was substantially lower than the average WPI inflation at 6.5 per cent in 2004-05. The current fiscal year started with overall CPI inflation rate at 5 per cent, up from 4.2 per cent in March 2005. The CPI inflation rate stood at 5.6 per cent in December 2005 as against 3.8 per cent in the same month last year.

The anti-inflationary policies of the government include strict fiscal and monetary discipline; rationalization of excise and import duties of essential commodities to lighten the burden on the poor; effective supply-demand management of sensitive items through liberal tariff and trade policies; and strengthening the public distribution system.

Agriculture

For the country as a whole, the seasonal rainfall from 1st June to 30th September, 2005 was 99 per cent of its Long Period Average (LPA). Among the four homogeneous regions, southwest monsoon seasonal (June to September) rainfall over northeast India was deficient by 20 per cent. Southwest monsoon seasonal rainfall over Central India, Northwest India and South Peninsula was 110 per cent, 90 per cent and 112 per cent of LPA respectively. The cumulative rainfall (June-September) was excess in 8 meteorological sub-divisions, normal in 25 and deficient in 3 sub-divisions.

The overall kharif foodgrains production during 2005-06 is estimated at the level of 105.25 million tonnes (1st advance estimates) compared to last year's production of 103.32 million tonnes (fourth advance estimates).The kharif rice production is expected to be 73.83 million tonnes. The total production of kharif Coarse Cereals is estimated to be 26.44 million tonnes.

Developments in Industry and Infrastructure

During the period April to November 2005, the industrial sector grew at 8.3 per cent. Manufacturing sector, which accounts for a weight of 79 per cent in the Index of Industrial Production has largely contributed to this growth. During the period April to November 2005, this sector grew at an average rate of 9.4 per cent. The comparable growth of the manufacturing sector during the same period last year was 9.1 per cent. The mining and electricity sectors, however, registered a lower growth rate of 0.5 per cent and 4.9 per cent respectively against the previous period's figure of 5.1 per cent and 6.6 per cent.

Capital goods registered an impressive growth of 15.9 percent during the current fiscal so far (April to November) as against 12.9 per cent in the comparable period of the last fiscal. The growth rate of basic goods have improved marginally from 5.9 per cent during April-November 2004 to 6.0 percent during April-November 2005. In case of intermediate goods there was a deceleration in the rate of growth from 7.3 per cent to 3.0 per cent. The consumer goods sector has grown at 12.9 per cent as against 11.2 per cent during the same period in the previous year. A notable feature was the better performance of the consumer non-durables in the current year, which recorded a growth of 12.8 per cent as against 9.7 percent in the previous year (April - November).

At a further disaggregated level within the manufacturing sector, "Other Manufacturing Industries" registered a growth rate of 23.3 per cent during April-November 2005. Textile Products (including wearing apparel) grew at 21.6 per cent during this period. Other industry groups which recorded a growth exceeding 10 per cent included Beverages, Tobacco and Related Products, Cotton Textiles, Basic Chemical and chemical Products (except products of Petroleum & Coal), Basic Metal and Alloy Industries, Transport Equipment and Parts and Machinery and Equipment other than Transport equipment.

Infrastructure

Quality infrastructure covering the services of transportation (railways, roads, ports, civil aviation); electricity transmission and distribution; communications (telecommunication and post); water supply and sanitation, and solid waste management is one of the most important necessities for unleashing high and sustained growth and alleviating poverty, particularly in the backward States.

During 2005-2006, the infrastructure sector experienced mixed outcomes. The overall index of six infrastructure industries, accounting for 27 per cent weight in the Index of Industrial Production (IIP), during April-December, 2005 registered a growth of 4.5 per cent which is lower than the growth of 6.4 per cent registered during April-December, 2004. Crude oil production registered a negative rate of growth. Cement production accelerated during this period.

Monetary Trends and Developments

During the year 2005-06 (up to January 20, 2006), broad money (M3) grew at a higher rate of 13.2 per cent as compared with 9.2 per cent in the corresponding previous period. M3 growth on a year-on-year basis, as on January 20, 2006, was 16.4 per cent, as compared with 13.9 per cent on the corresponding date of the previous year. The growth of M3 on January 20, 2006 is also higher than the projected growth of 14.5 per cent for the full year indicated in the Annual Policy Statement of the Reserve Bank of India (RBI) for 2005-06. The major components of M3 (currency with the public, demand and time deposits with banks) registered a higher growth in the current year as compared to the previous year. Among the sources, growth of M3 in the current year was largely driven by increase in bank credit to the commercial sector.

During the current financial year (up to January 20, 2006), reserve money (MO) also grew at a higher rate of 9.4 per cent as compared with 6.7 per cent in the corresponding period of the previous year. The year-on-year growth of reserve money as on January 20, 2006 was lower at 14.9 per cent compared with 15.3 per cent on the corresponding date of the last year. In recent years, there has been a significant shift in the relative importance of sources of reserve money. Net RBI credit to the Government, which was driving the reserve money growth till 2002-03 ceased to be an important factor. With large capital flows into the country, net foreign exchange assets (NFA) of RBI have emerged as a major determinant of reserve money growth. In the current year up to January 20, 2006, NFA grew by 0.3 per cent over the corresponding period of the previous year.

In the conduct of monetary policy, the Reserve Bank of India was faced with the challenge of reconciling two dominant views. On the premise that inflation was supply induced, it was argued that direct monetary policy action for controlling liquidity, may be premature keeping in view the fact that industry was coming out of a sluggish phase. At the same time, the expectations about inflation were subdued despite conditions of overhang of excess liquidity and strong credit growth owing to incomplete pass-through of international oil price increases and uncertainties about its second round effects. During 2005-06 as on January 27, 2006, additional liquidity absorbed under the MSS was Rs. 37,280 crore. Notwithstanding the MSS operations, surplus liquidity conditions resulted in the reverse repo volumes tendered under the LAF increasing from an average of Rs.29,809 crore in March 2005 to Rs.34,832 crore in August 2005. Having regard to the possible implications of excess liquidity on the price front, the RBI had during October 2005 raised the fixed reverse repo rate by 25 basis points from 5.0 per cent to 5.25 per cent. The RBI in the third quarterly review of the Annual Policy Statement 2005-06 (January 23, 2006), on appraisal of the macroeconomic conditions had further increased the fixed reverse-repo rate by 25 basis points to 5.50 per cent with immediate effect. This has had salutary effect. The reverse repo volume reached Rs. 40 crore only on January 27, 2006. With the onset of tightening of the liquidity in the system RBI's injections under repo (LAF) have been taken up.

Bank credit

The pick up in bank credit, observed in the 2004-05, continued through the current year. Gross bank credit by scheduled commercial banks (SCBs), comprising food and non-food credit, increased by 24.0 per cent in the current year (up to January 20, 2006) compared with 20.7 per cent in the corresponding period last year. However, food credit declined by 6.8 per cent in the current year (up to January 20, 2006), in contrast to the growth of 15.2 per cent witnessed last year.

In the current financial year (up to January 20, 2006), investment by Scheduled Commercial Banks (SCBs) in Government and other approved securities declined by 3.3 per cent as compared with growth of 5.1 per cent in the corresponding previous period. The lower growth of investments in the current year is mainly on account of SCBs offloading their investments in Government securities, following the higher growth of bank credit to the commercial sector and lower market borrowings by the Central government.

External Sector

The year 2004-05 marked a significant departure in the structural composition of India's balance of payments (BOP). After three consecutive years of surplus, the current account of India's BOP turned deficit during the year. While this deficit brought on by a burgeoning imbalance between merchandise exports and imports which was left uncompensated by surplus invisibles (net), does underscore rising investment demand in the economy, the magnitude of the deficit is one of the highest in recent times. The turnaround in the current account balance from a surplus equivalent to 2.3 per cent of GDP in 2003-04 to a deficit amounting to 0.8 per cent of GDP in 2004-05 highlights a remarkable change in the composition of the account during the year. The current account continues to be in deficit with the size of the deficit during the first half of the current year (i.e. April-September 2005-06) being almost twenty seven times that of the deficit in the corresponding previous period.

The transformation in the current account during 2004-05 was accompanied by a capital account. The surplus in the capital account grew by more than 80 per cent over and above its previous year level. Such a growth largely nullified the negative impact of a current account deficit on the pace of reserve accretion. Reserve accumulation during 2004-05 was eventually more than four-fifth of such accumulation during 2003-04, which maintained India's status as one of the largest reserve-holding economies in the world. Compared with 2003-04, when loan inflows had turned into net outflows, such inflows shot up rapidly during 2004-05 and bolstered the size of the capital account surplus with good support from robust foreign investment inflows.

In spite of a deficit in the current account during 2004-05, the total stock of foreign currency assets went up by US$26.1 billion (on BOP basis) during the year. At the end of 2004-05, India's total foreign exchange reserves (including foreign currency assets (FCA), gold, special drawing rights (SDR) and reserve tranche position (RTP) in the IMF) stood at US$141.5 billion, reflecting an increase of US$28.5 billion, as compared with US$113.0 billion at end-March 2004. As on January 27, 2006 India's total foreign exchange reserves (including foreign currency assets (FCA), gold, special drawing rights (SDR) and reserve tranche position (RTP) in the IMF) stood at US$139.5 billion.

India has been following a broadly market-determined exchange rate policy for quite some time, allowing the Indian rupee to move in response to the changes taking place in global foreign exchange markets. The Rupee appreciated by about 2.3 per cent against the US Dollar in 2004-05 and recorded an annual average value of Rs 44.93. However, against the other currencies, the Rupee showed a deprecating trend in nominal terms. The trends of appreciation/depreciation displayed by the Rupee in nominal terms against the four major global currencies in 2004-05 have reversed during the year 2005-06. At the end of ten months of 2005-06, i.e. till April-January 2006, the Rupee appreciated by around 2.1 per cent against the US Dollar compared with the corresponding period of the previous year.

In dollar terms and on customs basis India's exports registered an impressive growth of 26.2 per cent in 2004-05 and exports crossed the US$ 80 billion mark. The global economic outlook and the growth in domestic output, especially the revival of the manufacturing sector at 9.1 per cent in 2004-05 helped achieve this. In the first three quarters of 2005-06 the pace of export growth was maintained, with rate of growth at 18.1 per cent. The export surge was also supported by the increase in the prices of petroleum and other commodities. Growth was broad based, evident in most of the sectors. While the US continues to be the single largest trading partner of India, its share has declined in 2004-05 and 2005-06 (April-October). China has emerged as the second major trading partner for India in 2005-06, and the share of China and Hong Kong together in India's exports at 9.4 per cent is near the 10 per cent share of the US.

Merchandise imports continued the high growth path of earlier years, in 2004-05 as well, with total import touching US$ 109.2 billion. Growth in imports in 2004-05 was 40 per cent. This was the highest growth in imports since 1980-81 and was mainly due to the steep rise in the price of petroleum products and other commodities. During the first nine months of the current year import growth decelerated, though the growth continued to be high at 27.3 per cent. Growth in POL imports was price driven rather than volume driven. While POL imports increased by 45.1 per cent in US$ value terms, the volume of imports grew only by 6.4 per cent. Non-oil imports grew by 30.9 per cent and non-oil non-gold imports by 31 per cent. In 2005-06 (April-October) imports continued to grow, though at a decelerated pace, at 27.3 per cent, with growth in POL at 45.4 per cent mainly due to price increase, with quantity growth of POL items being only 1.6 per cent. The growth of non-oil imports also decelerated and increased by 20.1 per cent and non-oil non-gold imports increased by 22 per cent in the first nine months of 2005-06. The increase in imports is also attributable to the growth in import of items like gold and silver, capital goods and export related items, besides POL imports.

Trade deficit which has been showing a widening trend in recent years reached US$28.6 billion in 2004-05. In the first three quarters of 2005-06 the merchandise trade deficit has crossed the whole year figure for 2004-05 and has touched US$ 28.6 billion. Non-oil trade balance which used to be in surplus turned negative in 2004-05 and continued to be in the negative in 2005-06. This is largely attributable to the high demand for imports due to the pick up in economic activity in the country, with GDP growing at 6.9 per cent and 8.1 per cent in 2004-05 and 2005-06 (April-September) respectively and the manufacturing out put growing at 9.1 and 9.9 per cent respectively during the same periods.

The Annual Supplement to the Foreign Trade Policy 2004-09, announced in April, 2005 incorporated additional policy initiatives and further simplified the export procedures. State governments will be actively involved in providing an enabling environment for boosting international trade, by setting up an Inter-State Trade Council. Different categories of advance licences were merged into a single category for procedural facilitation and easy monitoring. The Supplement provides renewed thrust to exports from the agricultural sector. Other policies announced were the removal of cess on exports of all agricultural and plantation commodities, extension of the Vishesh Krishi Upaj Yojna to poultry and dairy products. Some other measures which are likely to boost exports and employment from the agricultural sector include reduction in bank guarantee from 25 per cent to 15 per cent for Agriculture Export Zones (AEZ) units, reduction in export obligations for agricultural exports under Export Promotion Capital Goods (EPCG) scheme and special package for modernizing the marine sector. As per the Annual Supplement, the incremental direct employment generated by exports is 10 lakhs jobs in 2004-05 and total employment generated during the year corresponding to export activity was 1 crore jobs. Achievement of the $150 billion target of exports by 2009 would generate another one crore jobs. A major policy development in the trade sector was the passing of the Special Economic Zone (SEZ) Act in June 2005. SEZ scheme was introduced with the objective of providing an internationally competitive and hassle free environment for exports and for attracting Foreign Direct Investment (FDI), and to facilitate transfer of technology, which can result in creation of employment. SEZs are specifically delineated duty free enclaves and are treated as deemed foreign territory for the purpose of trade operations and duties and tariffs. To implement the provisions of SEZ Act, 2005, SEZ Rules are being framed. The Act provides for attractive fiscal incentives and tax concessions for the developers as well as manufacturers.

India's external debt was US $ 124.3 billion at end-September, 2005 as against US $ 123.3 billion at end-March, 2005. While long term debt amounted to US $ 116.0 billion, short term debt stood at US $ 8.3 billion at end-September, 2005. The Key indicators of external debt continued to improve during the year. The external debt to GDP ratio dropped during the year from 17.8 percent at end-March, 2004 to 17.4 percent at end-March, 2005. Debt servicing as a proportion of gross current receipts declined from 16.3 percent during 2003-04 to 6.2 percent in 2004-05. In terms of international comparison, India's external debt position remained comfortable.

Social Sector Development

Expenditure of the Central Government on social services including rural development increased from Rs.18,240 crore in 1995-96 to Rs.66,690 crore in 2005-06 (BE). However, total expenditure on social sectors of the general government (combined Centre and State Governments) as a percentage of GDP at current market prices decreased from 6.3 per cent in 2000-01 to 5.7 per cent in 2005-06 (BE).

II. DEPARTMENT OF EXPENDITURE

The Department of Expenditure is the nodal Department for overseeing the public financial management system in the Central Government and matters connected with State finances. Principal activities of the Department include pre-sanction appraisal of all major schemes/projects (both Plan and non-Plan expenditure); handling bulk of the Central budgetary resources transferred to States; implementation of the recommendations of the Finance Commission; overseeing the expenditure management in the Central Ministries/Departments through the interface with the Financial Advisors, the Financial Rules, Regulations & Orders and monitoring of Audit comments/observations; preparation of Central Government Accounts; manage the financial aspects of personnel management in the Central Government; assisting Central Ministries/Departments in controlling the costs & prices of public services and organizational re-engineering; and reviewing systems and procedures to optimize outputs and outcomes of public expenditures. The Department is also managing coordination of matters concerning the Ministry of Finance including Parliament-related work of the Ministry. The Department has under its administrative control the National Institute of Financial Management (NIFM), Faridabad.

The agenda for the Department was guided by the framework provided by the (i) Thrust Areas set for D/o Expenditure by the Prime Minister, including 5-planks of institutional reforms, viz., Decentralisation, Simplification, Transparency, Accountability and e-governance. (ii) Initiatives on Expenditure Management announced by the Finance Minister Fiscal Policy Strategy Statement (FPSS) prepared under the Fiscal Responsibility and Budget Management Act in Budget 2005-06. (iii) The recommendations of the 12th Finance Commission concerning fiscal reforms. D/o Expenditure aimed to tighten financial discipline on the one hand while expediting financial decision making on the other.

III. DEPARTMENT OF REVENUE

1. The Department of Revenue exercises control in respect of revenue matters relating to Direct and Indirect Union Taxes. The Department is also entrusted with the administration and enforcement of regulatory measures provided in the enactments concerning Central Sales Tax, Stamp Duties and other relevant fiscal statutes. Control over production and disposal of opium and its products, is also vested in this Department.

2. Tax policies are formulated in order to mobilize financial resources for the nation, achieve sustained growth of the economy, macro-economic stability and promote social welfare by providing fiscal incentives for investments in the social sector. Suitable changes were made in the Budget 2005-06 to achieve these objectives. The details of these changes are given in paragraphs 3.3 and 4.11.

3. During the financial year 2005-06, the drive against smuggling, tax evasion, etc., continued throughout the country in view of Government's firm resolve to take strict action against socio-economic offenders. The year also witnessed continued efforts at better coordination with the intelligence/enforcement agencies of other countries.

4. The Central Economic Intelligence Bureau acts as a nodal agency for economic intelligence, for interaction & coordination among the concerned regulatory agencies in the areas of economic offences. The Bureau has also been charged with the responsibility of overall administration of Conservation of Foreign Exchange and Prevention of Smuggling Activities Act 1974 (COFEPOSA Act) and monitoring of actions taken by the State Governments. During the year 2005-06, information on violation of economic laws was passed on to the enforcement agencies concerned in order to bring the offenders to book; trends in economic offences were also analysed and COFEPOSA Act 1974 was administered vigorously to tackle the menace of smuggling and foreign exchange racketeering.

5. The Income Tax Offices throughout the country continued their drive against tax evaders. During the financial year 2005-06 (upto Dec. 05), a total number of 1913 (prov.) Search Warrants were executed, leading to the seizure of assets worth Rs.226.16 crores (prov.), and a total number of 4929(prov.) Surveys were conducted out of which the amount of additional income disclosed was Rs.981.71 crores (prov.). As regards assessees, 5.62 lakhs new assessees were added during the financial year 2005-06 (upto October, 2005).

6. The Customs and Central Excise Offices also continued their drive vigorously against duty evasion. During the financial year 2005-06 (upto December, 2005), a total number of 4286 cases of evasion of Central Excise and 593 cases of evasion of Customs duty were detected, involving duty effect of Rs.2351.17 crores and Rs.643.14 crores, respectively. The drive against smuggling continued unabated. All Commissionerates along the coast, land borders and, in charge of international airports, remained fully alert to prevent smuggling of contraband, both into and out of the country. As a result, during the financial year 2005-06 (upto December, 2005), in 25,271 smuggling cases, goods worth the value of Rs.1508.78 crores were seized.

IV. DEPARTMENT OF DISINVESTMENT

The Ministry of Disinvestment was converted into a Department under the Ministry of Finance with effect from 27th May 2004 and has been assigned all the work relating to disinvestment, which was earlier being handled by the Ministry of Disinvestment. In January 2006, the Department of Disinvestment has also been assigned the work relating to financial policy in regard to utilization of the proceeds of disinvestment channelised into the National Investment Fund.

The National Common Minimum Programme adopted by the Government outlines the policy of the Government with respect to the Public Sector, including disinvestment of Government's equity in Central Public Sector Enterprises (CPSEs). At present, the emphasis is to list, large, profitable CPSEs on domestic stock exchanges and to selectively sell small portions of equity in listed, profitable CPSEs (other than the navratnas).

The Government has constituted a "National Investment Fund"(NIF) into which the proceeds from disinvestment of CPSEs would be channelised. The NIF would be maintained outside the Consolidated Fund of India and would be professionally managed by the selected Public Sector Mutual Funds to provide sustainable returns without depleting the corpus. 75% of the annual income of NIF will be used to finance selected social sector schemes, which promote education, health and employment. The residual 25% of the annual income of NIF will be used to meet the capital investment requirements of profitable and revivable CPSEs that yield adequate returns, in order to enlarge their capital base to finance expansion/ diversification.

CHAPTER I

DEPARTMENT OF ECONOMIC AFFAIRS

1. ECONOMIC DIVISION

1.1 The Economic Division tenders expert advice to the Government on important issues of economic policy. The Division monitors economic policies and advises on policy measures relating to macro management of the economy and on reforms.

1.2 As part of its regular activities, the Economic Division brings out the Annual Economic Survey which is placed in Parliament prior to the presentation of the Central Government Budget. The Economic Survey provides a comprehensive overview of important developments in the economy. It also analyses recent economic trends and provides an in-depth appraisal of policies. Over the years, the Economic Survey has acquired the status of an authoritative source and a useful compendium of the annual performance of the Indian economy.

1.3 The Division also brings out the Economic and the Functional Classification of the Central Government's Budget which is also presented to the Members of both the Houses of Parliament. The publication presents an estimate of the savings of the Central Government and its departmental undertakings, gross capital formation and the magnitude of the development and consumption expenditure broken up under broad functional heads.

1.4 The Division's Monthly Economic Report provides a synoptic view of the current economic situation and helps in monitoring the performance of the economy. This is circulated to the Cabinet and senior officers of the Government and Indian Mission abroad. The Division also brings out every month an abstract entitled "Selected Economic Indicators" which gives the latest available data on the key sectors of the economy. The Division prepares, from time to time briefs on the performance of the infrastructure sector, agriculture and industrial production , the price situation, trends in tax collection, the balance of payments and the monetary situation. The Division also undertakes short-term forecasting of key economic variables.

1.5 As part of its advisory functions, the Economic Division prepares analytical notes and background papers on important policy issues and also provides briefs for meetings of the Consultative Committees and Working Groups set up by the Government. The officers of the Economic Division participate in consultations with various missions from international institutions, such as, International Monetary Fund (IMF), the World Bank & WTO etc. The Division works in close cooperation with the Reserve Bank of India, the Planning Commission, the Central Statistical Organisation, the Ministry of Commerce and Industry and the Economic and Statistical Wings of their Ministries.

1. 6 The work of the Economic Division is organised under the following units:

1. External Sector
2. Public Finance & Fiscal Policy
3. Industry and Infrastructure
4. Prices and Agriculture
5. Coordination Unit
6. Social Sectors
7. Money & Capital Markets.

1.7 The External Sector Unit monitors and reviews the emerging trends in India's foreign trade and balance of payments position. It is associated with the Department of Commerce in various consultations and discussions relating to Import & Export Policy of the Government, multilateral trade negotiations, trade liberalization and economic cooperation. It is also concerned with meetings of the IMF, IBRD, WTO and other international agencies. It is responsible for monitoring and effective management of external debt and planning for sustainable future borrowing levels. It is the nodal agency for implementing Special Data Dissemination Standards, established by the IMF, to which India subscribed w.e.f. 1.1.1997. External Sector Unit also assists in the preparation of the Working Group Report on Balance of Payments for the five year plans

1.8 External Debt Management Unit (EDMU) set up in the Ministry of Finance, Department of Economic Affairs is the apex Unit for external debt monitoring and management exercises. The Unit, besides releasing external debt statistics for two quarters ending September and December in compliance with the requirement under IMF's Special Data Dissemination Standards, brings out Status Report on India's External Debt on a regular basis covering detailed analysis of annual external debt statistics together with international comparison.

1.9 The Public Finance and Fiscal Policy Unit deals with matters relating to public finance and budgetary operations of the Central Government. Statistics relating to finances of the Centre and States are compiled in this Unit. This Unit furnishes Government Finance Statistics (GFS) as per prescribed standards to the IMF. The Unit brings out annually two important public documents: "An economic and functional classification of the Union Budget", which facilitates a cross-referencing of the two types of classifications for evaluating the budgetary transactions and "Indian Public Finance Statistics" which presents trends in revenue and expenditure of the Central and State Governments, classified by economic categories. Notes on various aspects of public finance are prepared in the Unit for the meetings of the Standing Committee, the Consultative Committee and the Estimates Committee of Parliament. It is also associated with the estimation of resources for the Central Sector Plan. The Unit is involved in the process of formulation of tax policies of the Government. In particular, it examines various pre-budget memoranda received from associations representing trade and industry regarding tax matters. These representations are examined from broader economic perspective, keeping in view the issues of the equity and efficiency, in the formulation of tax policies. Besides, this Unit also maintains a close liaison and collaborates with institutions engaged in applied economic research, outside the Government in the sphere of macro economic modeling, policy and analysis of economic issues. The Unit monitors the performance of macro economic aggregates and deals with policy matters arising therefrom.

1.10 Industry Unit advises the Government on policy issues relating to Industry at both macro and sectoral levels. The unit also monitors and reviews on a continuous basis the trends in industrial production and its performance. It also analyses the investment climate both domestic and international, industrial sickness and industrial relations.

1.11 The Prices and Agriculture Unit monitors and reports on price situation and advises on general price policy matters relating to supply management especially in respect of essential commodities and advises on policy matters relating to agriculture sector. This unit also examines proposals from other Ministries regarding price policy issues such as, fixation of minimum support price for crops and selected commodities and the impact of price changes on general price level and other policy matter relating to Agriculture sector. The unit assists Committee of Secretaries on Monitoring of Prices. The unit produces weekly report on price situation followed up by a monthly summary that include movement in consumer price indices to serve as a feed back for policy. The unit also advises the Government on pricing policies relating to food and agriculture commodities.

1.12 The Coordination Unit is entrusted with macro-economic policies, economic reforms, coordination, management information system, computerisation and internal administration of Economic Division . It coordinates the production of Economic Survey and also arrange pre-budget meetings. The unit also produces from time to time notes on various aspects of the Indian Economy for use of Senior officers, PMO, President's Secretariat etc. The unit also prepares and monitors the annual action plan of the Division.

1.13 The Social Sector Unit prepares analytical notes on poverty, employment, rural development and other topics concerning social sectors like health, education labour matters etc. The unit also advises the Government on specific policy issues in social sectors, examines reports, draft policy papers /Cabinet Notes, budget proposals in Social Sectors concerning issues on social sectors.

1.14 Money and Capital Market Unit advises the Ministry on Money and Credit Policy and deals with issues relating to Capital & Financial Market developments. The unit periodically reviews and monitors money supply (M3), bank credit to the Government , bank credit to the commercial sectors, deposits and credit growth of the scheduled commercial banks that influence the liquidity level in the economy.

BANKING AND INSURANCE DIVISION

2. BANKING

2.1 Organization and Role

Banking & Insurance Division is concerned with Government policies, which have a bearing on the working of commercial banks, Insurance Companies and the term lending institutions. The Division is under the charge of Secretary, Department of Economic Affairs assisted by Additional Secretary (Financial Sector), three Joint Secretaries and an Economic Adviser.

2.2.1 Proposal for amendments to the Banking Regulation Act, 1949.

To give effect to the amendments announced by Hon'ble Finance Minister in his Budget Speech 2005-06 and also to confer operational flexibility to Reserve Bank of India, the Banking Regulation (amendment) Bill, 2005 was introduced in the Lok Sabha on 13th May, 2005 with a view to strengthen regulatory power of RBI over commercial as well as Cooperative banks, the proposed legislation also removes the restrictions on voting rights. It also empower RBI to grant exemption to any banking company from the provisions of Section 20 with respect to the restrictions on entering into any commitment granting any loan or advances to any company as well as empower RBI to specify the SLR without any floor or ceiling. Beside this, it also empowers RBI to order special audit of the accounts of cooperative banks in the public interest etc.

2.2.2 Amendment to the Reserve Bank of India Act, 1934.

In order to remove limit for CRR to facilitate more flexible conduct of monetary policy and to enable RBI to lend or borrow securities by way of Repo, reverse Repo or otherwise, a Bill to amend the RBI Act, 1934 was introduced in the Lok Sabha on 13th May, 2005.

2.2.3 Amendment to Banking Companies (Acquisition & Transfer of Undertaking) Act, 1970/1980.

In order to increase the number of Whole-Time Directors from two to four and to restrict the number of shareholder Directors to three and for setting up of a financial restructuring authority for potentiality weak banks and to make other necessary changes to enhance flexibility to the boards of the banks and improve corporate governance, a Bill, Banking Companies (Acquisition and Transfer of Undertakings) and Financial Institutions Law (Amendment) Bill, 2005 was introduced in the Lok Sabha on 16th August, 2005.

2.3.1 CUSTOMER SATISFACTION IN BANKING SERVICES

RBI have constituted a Committee on procedures and performance audit on different services under the Chairmanship of Shri S.S.Tarapore, former Deputy Governor, RBI. Further in order to support broad based improvement for customer services in relation to various banking services, all banks were advised by RBI to constitute Ad-hoc Committees in their banks in December, 2003. The banks were also advised in June, 2004 to associate non officials in the Ad-hoc Committee set up by them. With a view to strengthen the corporate governance in the banking system, all the Public Sector and Private Sector Banks have been advised by RBI to constitute a Customer Service Committee of the Board on a continuing basis dedicated to bringing about on-going importance in the quality of customer service provided by them.

Banks have been advised that intervention by top management of banks and effective oversight of the customer services by the Board, on an on-going basis would be essential. Banks have also been advised to initiate innovative measures for enhancing the quality of customer service and improving the level of customer satisfaction for all the categories of clientele, at all times.

Each bank has appointed a Nodal Officer, generally of the rank of General Manager to look into the various grievances. Each bank has also formulated a Citizens' Charter to bring out broadly different types of banking services provided to the customers and also contains the grievance redressal machinery.

2.3.2 REVISED BANKING OMBUDSMAN SCHEME

Banking Ombudsman Scheme is in operation since 1995. The Scheme works under the control and supervision of Reserve Bank of India (RBI). Banking Ombudsman is an independent body with legal powers to settle disputes quickly and inexpensively. RBI has appointed 15 Banking Ombudsmen all over the country. The system is designated to ensure, in normal course, satisfactory resolution of complaints as early as possible. Any customer whose grievance has not been resolved by bank(s) to his satisfaction can approach Banking Ombudsman. The Scheme has been revised by RBI in 2002, in consultation with Government of India, with an important amendment of Arbitration and Reconciliation Procedure which empowers the Banking Ombudsman to act as an Arbitrator. For popularizing the Scheme, advertisement in the daily newspapers is issued from time to time making the customers aware about the Scheme. The Chief Executives of the banks have been requested to ensure that the awards of the Banking Ombudsman are honoured without raising unnecessary objections. With a view to make the scheme more effective, the Banking Ombudsman Scheme has been further revised. The revised scheme has been notified by RBI and operationalised in January, 2006.

2.3.3 NON-BANKING FINANCIAL COMPANIES:

The activities of Non Banking Financial Companies (NBFCs) are being regulated by Reserve Bank of India (RBI). Concern has been expressed over the plight of investors in the NBFCs. The necessity was, therefore, felt to safeguard the interest of the public/ investors. The Government of India appointed a Task Force on NBFCs to go into inter alia, the adequacy of present legislative framework and to devise improvements in procedure relating to customer complaints. The Task Force considered various legislations and suggestions received from different quarters and made wide ranging recommendations to deal with redressal of depositors' grievances. To give effect to the recommendations of the Task Force and to remove certain hurdles in the administration of certain provisions, the Central Government had decided to enact a new legislation - The Financial Companies Regulation Bill, 2000. The bill provided for safeguards to protect the interests of depositors/investors of NBFCs. The Bill was introduced in the Lok Sabha on 13th December, 2000. It had been referred to the Standing Committee on Finance, which gave its report to the Hon'ble Speaker on 30th June, 2003.

The recommendations of the Committee are under consideration of the Government in consultation with the RBI. In February, 2005, RBI informed that "internationally, acceptance of public deposits is restricted to banks only, and non-banks including NBFCs raise resources from institutional sources or by accessing capital market. In the Mid Term Review of the Annual Monetary Policy for the year 2004-05 by RBI, it was announced that in line with the international practices, NBFCs are being encouraged to move in this direction. Therefore, it is felt that a separate legislation for financial companies is not necessary at this stage".

It is felt that NBFCs in India play a unique role, which could not be ignored. But for NBFCs, the whole concept of higher purchase would not have developed. Consumer finance was also pioneered by NBFCs, not banks. Therefore, there is a strong feeling that NBFCs should be strengthened and given a larger role subject to regulations. While RBI is still working out suitable proposals for regulatory changes, a small group of officers from Ministry of Finance and Officers from Indian Banks' Association and Association of NBFCs has been constituted to make recommendations for regulatory changes. Final views of the group are yet to be finalized.

It would thus be noticed that no final view has been taken as to whether a separate legislation for regulation of NBFCs is required or not.

2.3.4 **ASSET RECONSTRUCTION COMPANIES**

"The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002" provides legal framework for function of the Asset Reconstruction Companies. The Act also confers powers on Reserve Bank of India (RBI) to regulate the functioning of ARCs. RBI has issued guidelines and directions for regulation of Securitisation Companies/ Reconstruction Companies under the above Act on April 23, 2003.

At present there are 3 ARCs in the country viz. Asset Reconstruction Company (India) Limited (ARCIL), Assets Securitisation & Reconstruction (ASR) - having its Registered Offices in Mumbai and Assets Care Enterprise Ltd. (ACE) - having its Registered Office in New Delhi.

2.3.5 **FOREIGN DIRECT INVESTMENT/FOREIGN INSTITUTIONAL INVESTMENT IN SECURITY RECEIPTS ISSUED BY ASSET RECONSTRUCTION COMPANIES**

Government has decided on 08th November, 2005 to permit Foreign Direct Investment (FDI) in the equity capital of Asset Reconstruction Companies (ARCs). Foreign Investment Promotion Board (FIPB) would henceforth consider applications from persons/ entities eligible to invest in India in the equity capital of Asset Reconstruction Companies registered with Reserve Bank of India under the FDI route : subject to the following conditions :

a) Maximum foreign equity shall not exceed 49% of the paid up capital.

b) Where any individual investment exceeds 10% of the equity, ARC should comply with the provisions of Section 3(3)(f) of SARFAESI Act.

Foreign Direct Investment alone will be permitted; investments by Foreign Institutional Investors (FIIs) will not be permitted.

The policy on FDI in ARCs would be reviewed after two years.

From November 11, 2005 Foreign Institutional Investors (FIIs) registered with Securities and Exchange Board of India (SEBI) are permitted to invest in Security Receipts (SRs) issued by Asset Reconstruction Companies (ARCs) registered with the Reserve Bank of India. FIIs can invest upto 49 per cent of each tranche of scheme of Security Receipts subject to the condition that investment of a single FII in each tranche of scheme of SRs shall not exceed 10 per cent of the issue. The policy on FII Investments would be reviewed after one year.

2.4 REGIONAL RURAL BANKS:

2.4.1 Regional Rural Banks (RRBs) have been established since, 1975 under the provisions of the Ordinance promulgated on 26th September 1975 and Regional Rural Banks Act, 1976 with a view to developing the rural economy as well as to create an alternative channel to 'cooperative credit structure' in order to ensure sufficient institutional credit for rural and agriculture sector. As on 31 March 2005, 196 RRBs were functioning in 523 districts in the country with a network of 14484 branches.

The RRBs are jointly owned by the Government of India, the State Government concerned and the Sponsor Bank (Public Sector Banks except in case of 4 RRBs). The issued capital of an RRB is shared by them in the proportion of 50%, 15% and 35% respectively. The area of operation of the RRB is limited to a notified area. The RRBs grant loans and advances mostly to small and marginal farmers, agricultural labourers and rural artisans.

2.4.2 **Deposit and Advances:**

The deposit base of RRBs improved by 11.03 percent from Rs.56,350.34 crores as on 31st March, 2004 to Rs.62,143.00 crores as on 31st March 2005. The loans disbursed by RRBs as on 31st March 2005 aggregated to Rs.21,082.47 crores as against Rs.15,579.05 Crores in the previous year, registering a growth of 35.33 per cent.

2.4.3 **Financial Results:**

The financial results of the year 2004-05 indicate that the RRBs are on the path of becoming stronger financial intermediaries in the rural sector. As per the financial results, the number of profit making RRBs have increased from 163 in the previous year to 167 as on 31st March, 2005. As against 163 RRBs in the previous year earning profit of Rs. 952.33 crore, 167 RRBs have earned a profit of Rs. 904.43 crore during the year 2004-05. Only 29 RRBs have incurred losses to the extent of Rs. 153.96 crore.

The Non-performing Assets of these banks have declined from 12.61% as on 31st March, 2004 to 8.53% as on 31st March, 2005. Further, the percentage of recovery to demand has progressively improved over the years from as low as 57 per cent as on 30th June 1997 to 77 per cent as on 30th June 2004.

The number of Self-help Groups (SHGs) linked by RRBs increased from 4,05,998 in 2003-04 to 5,63,846 in 2004-05. The total amount of bank loan disbursed to the SHGs by RRBs as on 31st March 2005 was Rs.2099.54 crore and the refinance thereof amounted to Rs.967.30 crore.

As a part of the comprehensive restructuring programme, recapitalisation of RRBs was initiated in the year 1994-95. Till March, 1999-2000, 187 RRBs have been provided with aggregate financial support of Rs.2188.44 crore from the shareholders (GOI/ Sponsor Banks and State Governments).

2.4.4 **Refinance Support from NABARD:**

NABARD's sanction of short-term credit limits for seasonal agricultural operations recorded a healthy increase of 48 per cent during the year 2004-05 (Rs 2001.95 crore sanctioned to 122 RRBs) as against an approval of Rs.1346.61 crore to 123 RRBs for the previous year. The utilisation of the credit limit was also appreciable during the year 2004-05 (89 percent of sanctioned limit) as compared to about 69% of the limit sanctioned for the preceding year 2003-04.

The investment credit also recorded a marked improvement over the preceding year. The refinance assistance at Rs.2049.11 crore availed by RRBs constituted 28.9% of total refinance assistance disbursed by NABARD during the year 2004-05 compared to Rs.1589.35 crore constituting 20.9% of total investment credit refinance provided by NABARD in the previous year.

2.4.5 **Restructuring/Merger of RRBs**

As regards restructuring of RRBs, it has been decided that Sponsor Banks should be held accountable for the performance of RRBs. RRBs that adopt a new governance standard and that abide by the prudential regulations will qualify for receiving funds from the Government for their restructuring. Further, the process has been initiated for the amalgamation of RRBs sponsored by same bank within a State to enhance capital base, have benefit of larger resources and economies of scale etc. As on 27 January, 2006 notifications under Sub - Section (1) of Section 23A of RRBs Act, 1976 for amalgamation of 47 RRBs into 16 amalgamated entities sponsored by 11 banks in 10 States have been issued.

2.5 SME POLICY

2.5.1 A "Policy Package on Stepping up credit to SME sector" has been announced in the Parliament on August 10, 2005 which inter-alia includes fixing self targets for funding Small and Medium Enterprises (SMEs) to achieve a minimum 20% year on year growth in credit to SMEs. The objective is to double the flow of credit to the SME sector by 2009-10, i.e. within a period of 5 years. The credit to small scale units which stood at Rs.67,600 crore for 2004-05 is to be raised to Rs.135,200 crore by 2009-10. Reserve Bank of India has issued instructions in this regard advising all banks to implement the policy measures. The salient features of the policy package are as under:-

2.5.2 **Fixing of self-targets for financing to SME sector by banks**

Government of India has indicated minimum 20% year on year growth for credit flow to the SME sector. The objective is to double the flow of credit from Rs.67,600 crore in 2004-05 to Rs. 135,200 crore to the SME sector by 2009-10, i.e. within a period of 5 years.

Reserve Bank of India (RBI) has been emphasizing on enhanced credit flow to this sector through various policy measures from time to time. The recent initiative being the "Scheme of Small Enterprises Financial Centres (SEFCs)" under which SIDBI will be co-financing with commercial bank branches to SMEs in identified clusters.

2.5.3 **Measures to rationalize the cost of loans to SME sector**

Banks may initiate necessary steps to rationalize the cost of loans to SME sector by adopting a transparent rating system with cost of credit being linked to the credit rating of enterprise. SIDBI has developed a Credit Appraisal & Rating Tool (CART) as well as a Risk Assessment Model (RAM) and a comprehensive rating model for risk assessment of proposals for SMEs. The banks may consider to take advantage of these models as appropriate and reduce their transaction costs, as SIDBI has already placed the same with their branches.

2.5.4 **Measures to increase the outreach of formal credit to the SME sector**

All banks, including Regional Rural Banks to make concerted efforts to provide credit cover on an average to at least 5 new small/medium enterprises at each of their semi urban/urban branches per year.

2.5.5 **Cluster based approach for financing SME sector**

In view of the benefits accruing on account of cluster based approach for financing SME sector due to reduction in transaction costs, mitigation of risk, etc., banks may treat it as a thrust area and increasingly adopt the same for SME financing. In order to undertake risk profiling of clusters, SIDBI and IBA have taken necessary steps and the reports would be of great value to banks in their credit decisions.

2.5.6 **Debt restructuring mechanism and a One Time Settlement (OTS) Scheme for SME sector**

The problem of sickness is prevalent in the SME sector due to globalization/liberalization and stiff competition from domestic and multinational corporates. Further, large number of borrowal accounts in the books of commercial banks are under stress due to various reasons. In order to enable banks to recover old NPAs and clean up their balance sheet and also to provide relief/ concessions to SME borrowers, a One time Settlement (OTS) Scheme and Debt restructuring mechanism for SME sector covering outstanding amount up to Rs. 10 crore in the books of banks have been announced.

2.5.7 **Debts Recovery Tribunals**

The Debts Recovery Tribunals (DRTs) have been established under the provisions of the Recovery of Debts Due to Banks and Financial Institutions Act, 1993 for speedy adjudication and recovery of debts due to Banks and Financial Institution. As on 31.12.2005 twenty-nine Debts Recovery Tribunals and five Debts Recovery Appellate Tribunals are functioning throughout the Country except the State of Jammu and Kashmir.

The details of cases filed, disposed of, the amount recovered during the last three years are given below :-

Rupees in crores

Financial Year	No. of cases filed	Amount involved	No. of cases disposed of	Recovery made
2003-04	9327	13968.03	10354	4520.77
2004-05	7627	19302.37	8988	4395.42
2005-06 (upto 31.12.2005)	4784	13726.97	6147	8010.75

2.6 Industrial Development Bank of India Ltd.

2.6.1 Industrial Development Bank of India, a statutory corporation established under the Industrial Development Bank of India Act, 1964, was converted into a commercial banking company, Industrial Development Bank of India Ltd. (IDBI), with effect from October 1, 2004, in terms of the Industrial Development Bank (Transfer of undertaking and Repeal) Act 2003. Following the conversion, IDBI Ltd. has commenced commercial banking business in addition to its mandated development banking activities. According to the Articles of Association of IDBI, Government of India continues to be the majority shareholder of the Company. Government stake in IDBI stands at 53%.

IDBI Ltd. Before its conversion to a commercial bank, was the leading development financial institution providing finance to large and medium industrial enterprises also.

After entering into commercial banking and with merger of its subsidiary with itself, IDBI Ltd has expanded its product basket and also offers various deposit products, trade finance, cash management services, treasury products, investment products.

2.6.2 **Financial Performance**

The accounting year 2004-05 of IDBI covers the period of six months ranging October 1, 2004 to March 31, 2005. This is due to extension of financial year 2003-04 by six months i.e. up to September 30, 2004 to coincide with the date of transformation of IDBI into a banking company.

Bank's working during the financial year 2004-05 (October 2004-March 2005) resulted in a Profit Before Tax (PBT) of Rs.288.5 crore. After making a provision of Rs.40.7 crore towards taxation and taking into account differed tax credit amounting to Rs.59.5 crore, Profit After Tax (PAT) amounted to Rs.307.3 crore. The Bank paid dividend at 7.5% on equity capital for the financial year 2004-05 (pertaining to the six month period October 2004-March 2005). At the time of conversion of IDBI into a bank, the Government set up Stressed Assets Stabilization Fund with a corpus of about Rs. 9,200 crore, to which IDBI transferred its stressed assets of a like amount.

As against the stipulated RBI norms of 9%, Capital Adequacy Ratio (CAR) of IDBI Ltd. as at end-March 2005 worked out to 15.5%. The Tier-I CAR was also at high level of 11.9%

2.6.3 Industrial Investment Bank of India Limited, Kolkata

Industrial Investment Bank of India Limited (IIBI) was set-up as a company under the Companies Act, 1956, in March 1997 by converting the erstwhile Industrial Reconstruction Bank of India, constituted under an Act of Parliament. It is fully owned by the Govt. of India and owes its origin to Industrial Reconstruction Corporation of India (IRCI) Ltd., set-up in 1971 for rehabilitation of sick industrial undertakings.

2.6.4 Function

The institution provided financial assistance to industrial concerns. High cost of funds and have mounting NPAs made further operations unviable. As a result at present, the business activities of IIBI are restricted.

2.6.5 Business Profile

The entire paid-up equity capital of IIBI of Rs. 225 crore, is held by the Govt. of India. The paid-up preference share capital of Rs. 221.08 crore, is held by different banks, institutions etc. Its business assets as on 31.03.2005 were around Rs 1,482 crore with Net NPAs at around Rs 487 crore (32.90%). Net worth of the company stood at Rs. (-) 343.28 Crore.

2.6.6 IFCI Limited

IFCI is the first Development Financial Institution of India set up in 1948 as a Statutory Corporation under an Act of Parliament to pioneer institutional credit to medium and large industries. It was converted into a Public Limited Company on 1st July, 1993.

Throughout the year 2004-05, IFCI operated in the restructuring mode concentrating its efforts on restructuring of its Balance Sheet primarily to reduce its asset-liability mismatches. During this period, IFCI had not sanctioned any assistance as part of its restructuring process. The assistance disbursed during the said period was limited to Rs.91 crore. The disbursements were mainly on account of restructuring of assisted concerns and devolvement of guarantees. Cumulatively, up to 31.3.2005, IFCI had made an aggregate sanction of Rs.46,159 crore to 4866 projects and disbursed Rs.44,409 crore.

During the year 2004-05, IFCI suffered a net loss of Rs.324 crore as compared to the net loss of Rs.3,230 crore incurred during the previous year. The accumulated losses as on 31st March, 2005 stood at Rs.4698 crore. The net loss for the half-year ended 30th September, 2005 was of the order of Rs.56 crore against Rs.82 crore for the corresponding period of the previous year.

2.6.7 EXPORT-IMPORT BANK OF INDIA(EXIM BANK)

Exim Bank of India was set up in 1982 by an act of Parliament, for the purpose of financing, facilitating and promoting foreign trade of India. It is the Principal Financial Institution in the country for coordinating working of institutions engaged in financing exports and imports. The Govt. of India wholly owns Exim Bank of India.

During the year ended March 2005 (FY 2004-05), the Bank sanctioned loans of Rs.15853 crore under various lending programmes, as against Rs. 9,266 crore, during 2003-04. Disbursements during the year amounted to Rs. 11435 crore, as compared to Rs. 6,957 crore during the previous year. Loan assets increased to Rs. 13,410 crore as on March 31, 2005 from Rs.10,775 crore as on March 31, 2004. Profit after tax amounted to Rs.258 crore during FY 2004-05 as against profit after tax of Rs. 229 crore during FY 2003-04, an increase of 13%. A Dividend of Rs. 65 crore was paid to the Government for FY 2004-05 as compared to Rs. 47 crore in the previous year. The Capital to Risk Assets Ratio (CRAR) stood at 21.6% as on March 31, 2005 as compared to 23.5% as on March 31, 2004.

During the year (2004-05), 570 contracts aggregating Rs.7,945 crore covering 64 countries were secured by 198 Indian exporters with Exim Bank's support. During April-December 2005 the Bank supported 419 contracts aggregating Rs.9781 crore covering 56 countries secured by 144 Indian Exporters.

2.6.8 Small Industries Development Bank of India

Small Industries Development Bank of India was set up in 1990, as the principal financial institution for promotion, financing and development of industry in the small scale sector and coordinating the functions of other institutions engaged in similar activities. In order to cater to the varied needs of the Small Scale sector including the tiny, village and cottage industries, SIDBI has devised suitable schemes for extending credit support for setting up of new projects, expansion, diversification, modernisation and rehabilitation of existing units, marketing related activities, venture assistance and micro credit etc. SIDBI's financial assistance to the sector has three dimensions [i] indirect assistance to SMEs through primary lending institutions [PLIs], [ii] direct assistance through SIDBI's own offices and [iii] development and support services. During FY2005-2006, the Bank has sanctioned and disbursed the assistance of Rs.8,156 crore and Rs.5,883 crore upto December 2005 as compared to Rs.6,661 crore and Rs.4,232 crore respectively in the corresponding period of previous year.

2.6.9 Major initiatives taken during the year 2005-06 (up to December 2005)

World Bank led multiagency/multi-activity Project on Financing & Development of SMEs

For upscaling the availability of capital to SMEs and support the demand side of the credit, SIDBI concluded negotiations with the World Bank for a project on financing and development of SMEs in India. This Project is a multiagency/multi-activity flagship project led by the World Bank and other partners include DFID, UK, KfW and GTZ Germany. The Project is of the size of Rs.1,000 crores and has three components namely [i] Line of Credit, [ii] Risk Sharing Facility, and [iii] Technical Assistance. It is expected that different components of the Project, apart from increasing credit flow, would enhance the capacity and competitiveness of SMEs and help in generation of additional output and employment in the country. Out of Line of Credit of USD 120 million negotiated with WB, Bank has already drawn USD 100 million for on-lending to SMEs. To address the demand side issues of the credit, the execution of technical assistance under the Project has commenced.

2.6.10 Risk Capital for SMEs

With a view to meet the needs of risk capital for SMEs, SIDBI, in association with select public sector banks, set up a national level venture capital fund of Rs. 500 crore In October 2005. The Fund, named as SME Growth Fund, is being utilised for investing in equity and equity linked instruments in the growth sectors like life sciences, light engineering, retailing, food processing, IT and infrastructure related services.

2.6.11 Small Enterprises Financial Centres

SIDBI has worked out a mechanism for strategic alliance with banks following RBI announcement in this regard. The new arrangement is intended to facilitate better coordination between the branches of SIDBI and banks located in clusters where co-financing can be taken up on mutually agreeable terms. The Bank has signed MoU with eleven banks so far, both in the public and private sector.

2.6.12 Credit Rating Agency for SME Sector

SIDBI, in association with banks, CIBIL and Dun & Bradstreet has set up a specialised rating agency for the SME sector. The new entity named "Small and Medium Enterprises Rating Agency of India Ltd. (SMERA)" was launched on September 5, 2005. The agency aims at focused attention in providing viable, credible and independent rating to the SMEs which would help enhancing their credit rating and enable them to borrow at competitive rates.

2.6.13 **Micro Credit**

The cumulative disbursements under the Bank's micro finance initiatives as at the end of December 2005 aggregated Rs.432 crore covering two lakh SHGs, benefiting over 26 lakh poor, mostly women. The cumulative assistance would surpass Rs.600 crore by end March 2006.

2.6.14 **Credit Guarantee Fund Trust for Small Industries**

As at end-December 2005, under CGS, guarantees in respect of 36,108 SSI / tiny units were approved, covering aggregate credit assistance of Rs.846 crore. The corpus of the fund was Rs.1057 crore as on December 31, 2005. The target for the fund is to cover over 38,000 units covering credit assistance of over Rs.1,000 crore by end March 2006.

2.7 Implementation of Official Language Policy in the Banking Division, Banks and Financial institutions

2.7.1 Banking Division ensures implementation of Official Languages Act, 1963 and Official Language Rules, 1976 as well as instructions received from Department of Official Language, Ministry of Home Affairs, from time to time, in the Division and also in 27 public Sector Banks and seven all India Financial Institutions, besides the Reserve Bank of India (RBI).

2.7.2 An Official Language Implementation Committee is functioning in the Banking Division. This Committee periodically reviews the progress made in the use of Hindi in RBI, Public Sector Banks and Financial Institutions and issues necessary instructions to take necessary measures for effective implementation of Official Language Policy and Annual Programme issued by Department of Official Language. These Banks and Financial Institutions send their quarterly progress reports regarding use of Hindi in their Head Offices to the Banking Division. These progress reports are also reviewed in the meetings of Banking Division's Official Language Implementation Committee. During 2005-06 four such meetings were held on 18.05.2005, 29.08.2005, 16.11.2005 and 13.01.2006 respectively. RBI, Public Sector Banks and Financial Institutions also have their own Official Language Implementation Committees which also meet regularly to review the progress made in the use of Hindi. In addition, 25Town Language Implementation Committees also monitor the progress of implementation of Official Language Policy in the Banks in different towns.

2.7.3 Apart from that, Departmental Official Language Implementation Committee of Banking and Insurance has been constituted under the chairmanship of Joint Secretary (Admn) to review the work being done in Hindi. So far three such meetings have been conducted.

2.7.4 As a result of the reviews made at different levels, the use of Hindi for official purposes in Public Sector Banks and Financial Institutions has got accelerated. Letters received in Hindi are being replied to in Hindi and Section 3(3) of the Official Languages Act, 1963 is being fully implemented. Forms and other procedural Literature are also printed bilingually. The advertisements, press communiqués and public notices of all India coverage are issued bilingually by Public Sector Banks and Financial Institutions. Annual Reports and House Journals are also being published by banks and financial institutions bilingually. In addition, Hindi magazines are brought out by several Banks.

2.7.5 According to a decision taken by the Banking Division Official Language Implementation Committee, the Banks whose branches in a particular District are doing more than 80 percent of their work in Hindi, such Districts are to be declared as 'Hindi Districts'. At present, 489 districts have been declared as Hindi District by different banks. Some banks have even declared some of the States as 'Hindi States' in Region 'A' on the above pattern.

2.7.6 Under the Rule 10(4) of the Official Language Rules, 1976 the number of notified branches/offices of various Banks and Financial Institutions have increased to 28,562. The Banks and Financial Institutions have also specified some of their departments or some sections in branches for doing their entire work in Hindi as required under Rule 8(4) of the Official Language Rules, 1976.

2.7.7 Consequent to the follow up action taken on the recommedations made by the Committee of Parliament on Official Language, training centres of Banks and Financial Institutions situated mostly in Region 'A' and 'B' barring a few technical courses, are conducting their training courses either exclusively through Hindi medium or in mixed language of Hindi and English. Handouts and training material are also available both in Hindi and in English.

2.7.8 Banks and Financial Institutions in addition to publishing small glossaries and booklets containing provisions of Official Languages Act, 1963 and rules made there under, annual programme, specimen of Hindi letters, standard notes and drafts., also organise Hindi workshops to impart training for working in Hindi for their staff. Banking Division also organises Hindi workshops from time to time.

2.7.9 All papers which are required to be placed before Parliament, Parliamentary Committees, Monthly summaries for the Cabinet and all Cabinet Notes are prepared bilingually in the Banking Division .

2.7.10 Officers of Banking Division also inspected 15 Head offices of Banks/Financial Institutions to have an assessment of the implemention of the various requirements of Official Language Policy.

2.7.11 Hindi Essay competition was organised for different categories of employees and officers during the 'Hindi forthnight - 2005.'

2.8 Priority Sector Lending:

2.8.1 Indian commercial banks are required to lend at least 40 per cent of their Net Bank Credit (NBC) to projects in the priority sector. Of these, banks are also required to lend 18 per cent of their NBC to agriculture.

The outstanding priority sector advances of Public Sector Banks (PSBs) increased by 26.85 per cent from Rs.244456 crore as on the last reporting Friday of March 2004 to Rs.310093 crore as on the last reporting Friday of March 2005. At this level, priority sector advances formed 43.2 per cent of Net Bank Credit (NBC). While other priority sector advances registered an increase of Rs.28274 crore (27.8 per cent), the direct and indirect advances to agriculture, taken together registered the maximum rise (33.21 per cent) over the previous year. Advances to agriculture constituted 15.7 per cent of NBC as on the last reporting Friday of March 2005.

Sector-wise break up of priority sector advances of PSBs are detailed in Annexure-I. Bank-wise details of advances to agriculture and weaker sections are furnished in Annexure-II.

2.8.2 **Economic Empowerment of Women:**

Recognizing the problems being faced by women in India in reaching out to the formal banking system and in order to improve the credit delivery to women, the public sector banks (PSBs) were advised to implement a 13 Point Action Plan in December 2000. Under the said Action Plan, the banks were advised, inter-alia, to earmark 5% of their net bank credit (NBC) for lending to women within 3 years viz. by March 2004.

2. The banks have since been making all-out efforts by redefining their policies/long-term plans by taking into account women's requirements. The credit to women at 2.36% of net bank

credit at the end of March 2001 has increased to 5.44% as at the end of March 2005 and to 5.47% at the end of June 2005. In addition, there has been progress in regard to establishment of women cells at bank's Head Offices and some branches, setting up of specialized branches, simplification of procedural formalities, orientation of bank officers/staff on gender concerns/credit requirements of women, launching awareness programmes/ publicity campaigns about schemes available for women, conducting entrepreneurship development programmes, publicity campaigns about schemes available for women, conducting entrepreneurship development programmes for women, strengthening existing schemes, involving NGOs/SHGs in providing credit facilities to women entrepreneurs, etc.

3. In various Government of India schemes for poverty alleviation and self employment viz. Swarna Jayanti Shahari Swarozgar Yojana (SJSRY), Swarnajayanti Gram Swarozgar Yojana (SGSY), Prime Minister Rozgar Yojana (PMRY) etc. preference is being given to the women entrepreneurs by the Public Sector Banks.

4. Another important channel for reaching bank credit to the women is Self Help Groups (SHGs). The number of SHGs linked to banks aggregated 16,53,047 as on July 2005. More than 90 per cent of the groups linked with banks are exclusive women groups.

5. With a view to encouraging women to organize cooperative banks, RBI has given the Mahila Banks certain relaxations (initially for a period of 5 years), in the Entry Point Norms (EPN). At present, there are 119 Mahila Banks as on March 2005.

2.9 Representation of Scheduled Castes/Scheduled Tribes/Other Backward Classes/Ex-Servicemen/ Physically Handicapped in Public Sector Banks/ Financial Institutions.

2.9.1 The representation of SCs/STs, OBCs, Ex-Servicemen and Physically Handicapped persons in 19 Nationalised Banks, State Bank of India and its Associate Banks, Reserve Bank of India, Industrial Development Bank of India, National Bank for Agriculture and Rural Development, Export Import Bank of India, National Housing Bank and Small Industries Development Bank of India as on 31.12.2005 was as under : -

1. Scheduled Castes/Scheduled Tribes/Other Backward Classes.

Category	Total No. of Employees	No. of Employees belonging to		
		SC	ST	OBCs *
Officers	258543	40076	14186	6570
Clerks	344426	55776	17114	11436
Sub-Staff	148343	37550	9896	33453
Sweepers	39784	22576	2494	3136
Total	791096	155978	43690	54595

* *Employed after 8.9.1993.*

2. Ex-Servicemen

Category	Total No. of Ex-Servicemen employed
Officers	2120
Clerks	8990
Sub-Staff	33453
Sweepers	93
Total	44656

3. Physically Handicapped

Category	Visually Handicapped	Hearing Impaired and Dumb	Orthopaedically Handicapped	Total
Officers	97	83	1988	2168
Clerks	544	742	4136	5422
Sub-Staff	134	223	1581	1938
Sweepers	7	27	314	348
Total	782	1075	8019	9876

2.10 PROFITABILITY - PUBLIC SECTOR BANKS

2.10.1 An analysis of financial position of Public Sector Banks (PSBs) as on 31st March 2004 and 31st March 2005 reveals that all the 27 Public Sector Banks posted net profit aggregating Rs.15,170 crore during the year ended 31 March 2005 as against an aggregate net profit of Rs.16,546 crore during the year ended 31 March 2004.

The operating profit and net profit of Public Sector Banks as on March 31, 2004 and 2005 is as under :

(Rs .in Crore)

Bank Group	31st March 2004		31st March 2005	
	Operating Profit	Net Profit	Operating Profit	Net Profit
State Bank Group	14363	5619	15260	5676
Nationalised Banks	25112	10928	23431	9494
Total for PSBs	39475	16546	39413	15170

SBI Group recorded an operating profit of Rs.15,260 crore during 2004-05, as against Rs.14,363 crore in the previous year. Net profit of the SBI Group for 2004-05 was at Rs.5676 crore as against Rs. 5619 crore in 2003-2004.

Nationalised Banks had posted a combined operating profit of Rs.23,431 crore during 2004-05 as against Rs.25,112 crore in the year ended 31 March 2004. The net profit was at Rs. 9,494 crore during 2004-2005 as against Rs.10,928 crore in the year ended 31 March 2004.

The operating profit of Public Sector Banks as a group during the year 2004-2005 was Rs.39,413 crore as against Rs.39,475 crore during the year 2003-2004. The total net profit of PSBs was Rs.15,170 crore during 2004-2005 as against Rs.16,546 crore during 2003-2004.

2.10.2 WORKING OF INDIAN BANKS' BRANCHES ABROAD

The total number of foreign banks operating in India stood at 31 with 245 branches as on September 30, 2005. These banks originated from 19 countries. While four banks have 10 or more branches, 12 banks were operating only with one branch each. The branches of foreign banks are spread over 35 centres in 17 States/Union Territories. Approval was conveyed to the existing foreign banks to open 12 additional branches in India out of which one branch has been opened so far.

Foreign banks have also set up representative offices in India. As on September 30, 2005. 27 banks from 13 countries operated representative offices in India. Banco de Sabadell SA opened its office in August 2004. At present, 58 banks have presence in India either through branches or representative offices.

Under Section 44 A of the Banking Regulation Act, 1949, the Indian branches of Sumitomo Mitsui Banking Corporation (SMBC) merged with Indian branches of Standard Chartered Bank. As a result, Sumitomo Mitsui Banking Corporation was excluded from the Second Schedule of the Reserve Bank of India Act, 1934 on March 1, 2005 in terms of Section 42(6)(b) of the Reserve Bank of India Act, 1934.

As on October 20, 2005, fourteen Indian banks - nine from the public sector and five from the private sector - had operations overseas spread across 42 countries with a network of 101 branches (including 6 offshore units), 6 joint ventures, 17 subsidiaries and 30 representative offices. Bank of Baroda had the highest overseas presence, followed by State Bank of India and Bank of India.

Overseas Operations of Indian Banks
(As on October 20, 2005)

Name of the Bank	Branch	Subsidiary	Represen-tative Office	Joint Venture Bank	Total
1	2	3	4	5	6
Bank of Baroda	39	7	3	1	50
State Bank of India	24	5	8	3	40
Bank of India	20	1	3	1	25
Punjab National Bank	1	-	4	1	6
Indian Bank	3	-	-	-	3
Indian Overseas Bank	5	1	-	-	6
UCO Bank	4	-	-	-	4
Canara Bank	1	1	2	-	4
Syndicate Bank	1	-	-	-	1
Bharat Overseas Bank	1	-	-	-	1
ICICI Bank Ltd.	2	2	6	-	10
Indusind Bank Ltd.	-	-	2	-	2
Bank of Punjab	-	-	1	-	1
HDFC Bank Ltd.	-	-	1	-	1
Total	101	17	30	6	154

2.10.3 **FINANCIAL PERFORMANCE**

The overall financial performance of the banking sector during 2004-05 remained satisfactory, when viewed in the context of upturn in the interest rate cycle. Banks continued to earn substantial operating and net profits, albeit, lower than the preceding year. However, reduced profits reflected mainly the lower treasury profits due mainly to hardening of sovereign yields. A sharp increase in net interest income driven by increased credit volumes mitigated to a considerable extent the impact of a sharp decline in non-interest income. On the whole, banks were able to weather the impact of rise in interest rates.

With the diversification of banks' portfolio, 'other income', comprising trading income and fee-based income has evolved as an important source of income for banks over the last few years. However, during 2004-05, 'other income, declines sharply by 15.1 percent (excluding the conversion impact) as against an increase of 25.1 per cent last year mainly due to decline in trading income and marked-to-market (MTM) losses.

The share of non-interest income in banks' total income, after showing a continuous increase from 10.7 per cent in 1993 to 21.5 per cent in 2003-04, declined sharply by 18.0 per cent in 2004-05.

Banks' overall income grew by 1.5 per cent in 2004-05 (excluding the conversion impact) as compared with 6.7 per cent in the previous year. On an incremental basis, the contribution of interest income to total income during 2004-05 was 310.0 per cent compared with 31.3 per cent in 2003-04; contribution of 'other income' was negative.

Among bank groups, income of PSBs grew at the highest rate, followed by new private sector banks. Income of foreign banks grew at a nominal rate, while that of old private sector banks declined on account of a small rise in interest income, which was more than offset by a sharp fall in 'other income. The income of certain PSBs also improved as the Reserve Bank allowed banks to recognize income on an accrual basis in respect of some categories of projects under implementation with time overruns.

Operating profits of SCBs declined by 3.1 per cent in 2004-05 as against an increase of 29.3 per cent in the previous year, reflecting largely the impact of decline in non-interest income. Among bank groups, operating profits of nationalised banks, old private sector banks and foreign banks declined during 2004-05, while those of SBI group and new private sector banks increased.

Net profits declined by 7.0 per cent (excluding the conversion impact) during 2004-05 as against an increase of 30.4 per cent in the last year. While net profits of nationalised banks, old private sector banks and foreign banks declined, those of SBI group and new private sector banks increased. Sharp increase in the net profits of new private sector banks was on account of a sharp decline in provision and contingencies.

2.10.4 **ASSET QUALITY : NPAS**

The sharp rise in credit growth was underpinned by a steady improvement in asset quality. Following the trend of the previous year, reductions in NPAs for SCBs outpaced additions to NPAs during 2004-05. This trend was observed across all bank groups, barring new private sector banks, Gross NPAs of SCBs (excluding the conversion impact) declined by Rs.6,485 crore between end-March 2004 and end March, 2005.

In view of several options available to banks for dealing with NPAs, banks have been able to recover a significant amount of NPAs. An improved industrial climate contributed to a better recovery position. The recourse to aggressive restructuring by banks in 2004-05 also helped in reducing the level of NPAs. The setting up of a the Asset Reconstruction Corporation of India (ARCIL) has provided a major boost to banks' efforts to recover their NPAs. During 2004-05, several banks and certain FIs sold their NPAs to the ARCIL to the extent of Rs.15,343 crore.

A significant improvement in recovering the NPAs combined with a sharp increase in gross loans and advances for SCBs led to a sharp decline in gross NPAs to gross advances ratio to 5.2 per cent at end March 2005. The decline in gross and net NPAs was evident across all bank groups.

Net NPAs ratio was the highest in respect of old private sector banks at end-March 2005 (2.7 per cent), followed by public sector banks, new private banks and foreign banks. At end-March 2005, 51 banks (as against 38 last year) out of 88 had net NPAs to net advances ratio less than 2 per cent. The number of banks with net NPAs to net advances ratio more than 10 per cent declined to four at end-March 2005 as compared with nine in the previous year. All four banks belong to the foreign banks group.

With provisioning for NPAs being somewhat lower during 2004-05, the decline in the NPA ratio was attributable to both increased recovery of NPAs and over reduction in asset slippages. In absolute terms, non-performing assets in 'doubtful' category increased, while those in sub-standard category declined sharply, reflecting the change in asset classification norm from the year ended March 2005, whereby an asset was treated as doubtful if it remained as NPA for 12 months as against the earlier norm of 18 months. However, NPAs in doubtful category as percentage of net advances declined significantly.

NPAs of public and private sector banks are classified in three broad sectors, viz. priority sector, public sector and non-priority sector. The share of NPAs in the priority sector to total NPAs of public sector banks increased marginally to 48.9 per cent at end-March 2005 from 47.5 per cent at end-March 2004. However, the share of NPAs of small scale industries in respect of PSBs declined. While the share of NPAs of non-priority sector increased during the 2004-05, the share of NPAs of public sector undertakings declined.

As regards private sector banks, the share of NPAs on account of all the three components of priority sector. viz. agriculture, small scale industries and other priority sector increased during 2004-05 as compared with 2003-04. The absolute amount of NPAs in each of these sectors, however, registered a decline during the year. The share of non-priority sector NPAs in total NPAs of private sector banks remained steady at 75.0 per cent during 2004-05.

2.10.5 **CAPITAL ADEQUACY**

The overall CRAR of SCBs at 12.8 per cent at end-March 2005 was more or less at the previous year's level (12.9 per cent). The ratio continued to be significantly above the stipulated requirement even after satisfying the new requirements pertaining to the capital charge for market risk. Tier-I component showed some improvement during the year despite the fact that there was a portfolio shift away from the SLR securities to the credit during the concurrent year. The sharp increase in the credit portfolio coupled with higher risk weight made applicable for housing and consumer loans led to a significant rise in the risk weighted assets by 33.4 per cent. However, banks' capital base kept pace with the sharp rise in risk weighted assets. This, to an extent, was achieved by increased access to the domestic and international capital markets.

The CRAR has increased steadily over the years. While most of the increase between end-March 1998 and end-March 2002 resulted from increase in Tier-II component, the mix of Tier-I and Tier-II capital has remained broadly stable thereafter with Tier-I component being roughly two-thirds of total CRAR. To maintain the CRAR, banks have relied mainly on retained earnings, although some banks have ended to supplement their retained earnings with capital issues.

Among bank groups, the CRAR of new private sector banks improved significantly which brought them closer to other bank groups. Within the public sector banks, the CRAR of nationalised banks registered a marginal improvement during the year. The CRAR of the State Bank group, old private sector banks and foreign banks has declined.

2.10.6 **RESOURCES RAISED BY PUBLIC SECTOR BANKS THROUGH PUBLIC ISSUES 2004-05**

Two public sector banks accessing the capital market were Punjab National Bank (Rs. 80 crore) and Dena Bank (Rs. 80 crore). Five private sector banks which floated equity issues during the year were ICICI Bank (Rs.3500 crore), ING Vysya Bank (Rs.307 crore), Karnataka Bank Ltd. (Rs.162 crore), Centurion Bank (Rs.91 crore) and South Indian Bank Ltd. (Rs.48 crore). Besides, two private sector banks (UTI Bank and Centurion Bank) also raised Rs.1,472 crore by way of GDR issued in the International market during the year

2.10.7 **EQUITY HOLDING OF GOVERNMENT IN BANKS**

The amount and extent of equity capital held by Government in nationalised banks, as on 31.03.2005 is as under :

(Rupees in crores)

Sl No	Bank	Total Equity	Share Holding Govt.	%	Otrs	%	Head Room Available
1	Oriental Bank of Commerce	192.54	128.00	66.48	64.54	33.52	15.48
2	Dena Bank	286.82	146.82	51.19	140.00	48.81	0.19
3	Bank of Baroda	293.26	196.00	66.83	97.26	33.17	15.88
4	Bank of India	639.00	489.00	77.00	150.00	23.00	26.00
5	Corporation bank	120.00	82.00	68.33	38.00	31.67	17.33
6	Syndicate Bank	471.97	346.97	73.52	125.00	26.48	22.52
7	Andhra Bank	400.00	250.00	66.67	150.00	33.33	15.67
8	Punjab National bank	315.30	182.24	57.80	133.06	42.20	6.80
9	Union Bank of India	460.12	280.00	60.85	180.12	39.15	9.85
10	Canara bank	410.00	300.00	73.17	110.00	26.83	22.17
11	Allahabad Bank	446.70	246.70	55.23	200.00	44.77	4.23
12	Indian Overseas Bank	544.80	333.60	61.24	211.20	38.76	10.24
13	Vijaya bank	459.24	259.24	59.80	200.00	40.20	8.8
14	UCO Bank	599.36	399.36	74.98	200.00	25.02	23.98
15	Bank of Maharashtra	430.52	330.52	76.77	100.00	23.23	25.77
16	Central Bank of India	1124.14		100			49.00
17	Indian bank	4573.96		100			49.00
18	United bank of India	1810.87		100			49.00
19	Punjab & Sind Bank	243.10		100			49.00

2.10.8 **Return of Capital**

During the year 2004-2005 Punjab National Bank has returned capital Rs.30 crore to the Government of India.

2.10.9 **CONSOLIDATION OF PUBLIC SECTOR BANKS**

As is well known, Public Sector Banks account for around 76% of the total banking business in the country. In order to bring the banking industry to global levels, new initiatives are being contemplated to bring substantive changes in the banking sector. As a part of the new initiative, the Public Sector Banks are seriously evaluating Consolidation as one of the strategies to increase competitiveness and add value. Consolidation in the banking sector was suggested by the Narsimhan Committee in its report way back in 1991 as part of wider financial sector reforms. To consider this idea further, the Indian Banks Association (IBA) appointed a Working Group to examine legal, regulatory and other related issues for consolidation in the banking industry. The Working Group has sent its suggestions to Govt. in October, 2004.

Consolidation would allow economies of scale in terms of footprint, manpower and other resources. Having Indian Banks of a larger size would also enable them to face competition arising from internationalization of the economy. Larger size also entails better management of risk. Small and weak banks pose systemic risks with their low capital adequacy ratio and high NPAs. Consolidation is a timely response to augment efficiency, which would lead to income generation and add to GDP of the country. The initiatives for consolidation have to come from the management of the banks themselves with Govt. playing a supportive role as the common shareholder. No directive on consolidation has been issued by Govt. and RBI.

IBA has recommended that Government should consider proposals for consolidation between nationalised banks in order to strengthen them. Govt. has indicated that it would consider specific proposals from nationalised banks as they arise. Any such proposal for consolidation by way of merger etc. of one nationalised bank with another nationalised bank has to come from the management of the banks concerned with Govt. playing a supportive role as the common shareholder. No directive on consolidation has been issued by Govt. or RBI. The Boards of Banks have to take a decision in this regard based on the synergy levels of merging / consolidating entities.

While supporting any merger proposal, Government will ensure that the interests of the stakeholders and employees of merging banks is adequately protected.

In the meeting with CEOs of PSBs held on 3rd June 2005 the Finance Minister advised the CEOs that before considering any proposal, the unions (of Banks) may be suitably sensitised on the need and advantages of consolidation and their apprehensions may be allayed.

Further, in his meeting with CEOs of Public Sector Banks (PSBs) held on 18th November 2005, the Finance Minister emphasized that to accelerate the process of consolidation in the banking sector, it is necessary that all the stakeholders are sensitised. The banks have been requested to continue and deepen the dialogue with the employees and officers to obtain a consensus in favour of consolidation.

2.10.10 **MANAGERIAL AUTONOMY FOR PUBLIC SECTOR BANKS**

With the globalization of the Indian Economy and the advent of private banks that are more nimble-footed and have access to a wealth of technology and managerial resources, Public Sector Banks have to be better equipped with greater operational flexibility to transact business more efficiently. Government, as the principal stakeholder, wishes to make room for such autonomy and provide the Public Sector Banks with a level playing field. It is in this context that the managerial autonomy features have been designed.

After due consideration a package on Management and Operational Autonomy to Public Sector Banks has been announced on 22.02.2005. These autonomy measures inter alia include the following :-

(i) Pursue new lines of business as part of overall business strategy.

(ii) Make suitable acquisition of companies or businesses , close/merge unviable branches, open overseas offices, set up subsidiaries and exit a line of business.

(iii) Decide all Human Resource issues relating to the Bank, including staffing pattern, recruitment, placement, transfer, training, promotions, etc.

(iv) Prescribe standards for categorization of branches, based on volume of business and other relevant factors.

(v) Prescribe essential academic qualifications, minimum qualification standards and modalities of promotion/ recruitment to various categories.

(vi) Undertake visits to foreign countries to interact with investors, depositors and other stakeholders.

(vii) Lay down policy of accountability and responsibility of Bank officials and take action against erring bank officials in conformity with such policy. The policy framework should provide for stringent punishment for all malafide actions but, at the same time, recognize that bona fide errors do occur while making decisions relating to commercial judgment.

Further autonomy in the following areas have been given to well performing strong banks :

i) Creation of additional posts of general managers

ii) Decisions on remuneration and compensation of officers and staff

iii) Decisions on the amount of contribution to be made to the staff welfare fund

The public sector banks have also been given autonomy in the matter of appointment of Statutory Central Auditors (SCAs) and Branch Auditors, and now the Boards of PSBs may exercise option as under:-

(i) Public Sector Banks may obtain the names of Statutory Central Auditors and Branch Auditors directly from the Comptroller and Auditor General of India (C & AG) and Institute of Chartered Accountants of India (ICAI) respectively and appoint them with the prior approval of Reserve Bank of India.

OR

(ii) The present practice may be followed and the Reserve Bank of India may appoint the SCAs in consultation with the Government of India.

However, the norms of remuneration of SCAs and Branch Auditors shall continue to be prescribed by the RBI. RBI will also continue prescribing the norms for empanelment of SCAs and Branch Auditors in respect of public sector banks.

2.10.11 ROAD MAP FOR PRESENCE OF FOREIGN BANKS IN INDIA

Reserve Bank of India has issued Road Map for the presence of foreign banks in India on 28.02.2005. The salient features of the Road Map for presence of foreign banks in India are as under:-

The Roadmap is divided into two phases.

During the first phase, between March 2005 and March 2009, foreign banks will be permitted to establish presence by way of setting up a wholly owned banking subsidiary (WOS) or conversion of the existing branches into a WOS.

To facilitate this, RBI has also issued detailed guidelines. The guidelines cover, inter alia, the eligibility criteria of the applicant foreign banks such as ownership pattern, financial soundness, supervisory rating and the international ranking. The WOS will have a minimum capital requirement of Rs. 300 crore, i.e., Rs 3 billion and would need to ensure sound corporate governance. The WOS will be treated on par with the existing branches of foreign banks for branch expansion with flexibility to go beyond the existing WTO commitments of 12 branches in a year and preference for branch expansion in under-banked areas. The Reserve Bank may also prescribe market access and national treatment limitation consistent with WTO as also other appropriate limitations to the operations of WOS, consistent with international practices and the country's requirements.

During this phase, permission for acquisition of share holding in Indian private sector banks by eligible foreign banks will be limited to banks identified by RBI for restructuring. RBI may if it is satisfied that such investment by the foreign bank concerned will be in the long term interest of all the stakeholders in the investee bank, permit such acquisition. Where such acquisition is by a foreign bank having presence in India, a maximum period of six months will be given for conforming to the 'one form of presence' concept.

The second phase will commence in April 2009 after a review of the experience gained and after due consultation with all the stakeholders in the banking sector. The review would examine issues concerning extension of national treatment to WOS, dilution of stake and permitting mergers/acquisitions of any private sector banks in India by a foreign bank in the second phase

2.10.12 GUIDELINES ON OWNERSHIP AND GOVERNANCE FOR PRIVATE SECTOR BANK

Reserve Bank of India has issued guidelines on Ownership and Governance for private sector banks on 28.02.2005. The salient features of the guidelines on Ownership and Governance for Private Banks are as under:-

(i) The ultimate ownership and control of private sector banks is well diversified. While diversified ownership minimises the risk of misuse or imprudent use of leveraged funds, it is no substitute for effective regulation. Further, the fit and proper criteria, on a continuing basis, has to be the over-riding consideration in the path of ensuring adequate investments, appropriate restructuring and consolidation in the banking sector. The pursuit of the goal of diversified ownership will take account of these basic objectives, in a systematic manner and the process will be spread over time as appropriate.

(ii) Important Shareholders (i.e., shareholding of 5 per cent and above) are 'fit and proper', as laid down in the guidelines dated February 3, 2004 on acknowledgement for allotment and transfer of shares.

(iii) The directors and the CEO who manage the affairs of the bank are 'fit and proper' as indicated in circular dated June 25, 2004 and observe sound corporate governance principles.

(iv) Private sector banks have minimum capital/net worth for optimal operations and systemic stability.

(v) The policy and the processes are transparent and fair.

2.10.13 FOREIGN DIRECT INVESTMENT IN BANKING SECTOR

A notification raising the FDI in the banking companies was issued by the Department of Industrial Policy and Promotion (DIPP) on 5th March, 2004. As per this notification the position of foreign direct investment in banking sector would be as under:-

1. The FDI limit in private sector banks stands raised from 49% to 74% under the automatic route, including investment by FIIs. Banking Companies, regulated by a financial regulator in the home country, will be permitted to hold 100% equity.

2. FII investment limit would continue to be within 49%.
3. Foreign Banks shall be permitted to either have branches or subsidiaries, not both.

Reserve Bank of India (RBI) has issued guidelines on Ownership and Governance in Private Sector Banks and a Road Map for presence of foreign banks in India on 28.02.2005.

2.11 Cash Reserve Ratio (CRR):

2.11.1 CRR was maintained at 5.0 per cent during 2005-06.

2.11.2 **Statutory Liquidity Ratio(SLR):**

There is no change in the SLR of commercial banks which is at the statutory minimum of 25 per cent of the net demand and time liabilities(NDTL) since October, 1997.

2.11.3 **Standing Liquidity Facility:**

Consequent upon the change in repo rate from 6.0 per cent to 6.25 per cent on October 26, 2005 the Standing Liquidity Facility was made available to the scheduled banks and Primary Dealers at 6.25 per cent with effect from October 26, 2005. As repo rate was further increased to 6.50 per cent with effect from January 24, 2006, the Standing Liquidity Facility provided to banks and Primary Dealers is now available to them at 6.50 per cent with effect from January 24, 2006. With the inherent superiority of the LAF in moderating liquidity in the financial system, both banks and PDs have tended to rely to a predominant extent on LAF.

2.11.4 **Liquidity Adjustment Facility (LAF) Scheme:**

The Reserve Bank of India formally introduced Liquidity Adjustment Facility (LAF) in June 2000 to modulate short term liquidity under varied market conditions. It helped in stabilising the short term money market rates by setting an informal interest rate corridor for overnight call money rate between the liquidity providing repo rate at the upper end and liquidity absorbing reverse repo rate at the lower end. It also helped in reducing the dependence on direct instrument of monetary control enabling the Reserve Bank to conduct monetary policy largely through market based indirect instruments.

Since November 2004, Reserve Bank has been operating LAF through daily repos / reverse repo auctions, the bids for which are received between 9.30 am and 10.30 am on all working days except Saturdays. In addition, in response to suggestions from the market participants, a Second Liquidity Adjustment Facility (SLAF) has been operationalised with effect from November 28, 2005 to fine-tune the management of liquidity. The bids for SLAF are received between 3.00 pm and 3.45 pm. The salient features of SLAF are the same as those of LAF. However, the settlement for the LAF and SLAF is done separately and on gross basis. The Reserve Bank has indicated that the SLAF will be subject to review and modification as needed, based on experience.

Money markets continued to perform smoothly in equilibrating demand and supply of short-term funds and by and large markets cleared without excessive volatility. Money market interest rates during 2005-06 (up to mid-January 2006) moved largely in alignment with the stance of the monetary policy. As monetary policy reacted with calibrated measures to stabilize inflation expectations, interest rates in various segments of the money markets responded to monetary policy actions. During the first nine months of the year, the overall marginal liquidity as evidenced in LAF levels was in surplus mode. However, based on an assessment of the emerging liquidity scenario, RBI started to inject liquidity in the market from September 2005 onwards. This helped in liquidity management prior to the redemption of IMD liability of US$7.1 billion in December 2005.

2.11.5 **IMD Redemption**

Liquidity management in face of IMD redemptions was carried out to contain disequilibrium while retaining monetary policy stance with a medium-term objective. Outflows on account of the redemptions were met by smooth arrangements worked out in this regard. During December 27-29, 2005, RBI sold foreign exchange out of its foreign exchange reserves to State Bank of India (SBI) totaling nearly US$ 7.1 billion, which in rupee equivalent terms was about Rs.33,000 crore. SBI on its part had built up the necessary rupee resources to meet the obligations. Temporary tightness in liquidity, coinciding with the IMD redemptions, outflows due to advance tax payments and the continued surge in credit offtake was addressed by release of liquidity through the repo window (including the second LAF) averaging about Rs.23,000 crore per day in the last week of December. The smooth redemption of the IMD liability of this size, bunched at a point of time, reflects the growing maturity of the financial markets and the strength of the liquidity management system that has been put in place. Short-term money market rates eased remarkably in the first week of January 2006 reflecting smooth redemptions of IMDs though it again firmed up later reflecting pressures emanating from scheduled auctions of Government securities.

2.11.6 **Commercial Paper (CP)**

In order to harmonise the stamp duty applicable on issuance of CP, as announced in the Union Budget 2005-06, the stamp duty on CP has been rationalised through a notification dated November 30, 2005. The stamp duty on CP now applies uniformly regardless of the initial class of investors. The market for CPs continued to remain buoyant during the year 2005-06 (up to mid-January 2006). The outstanding amount of CP increased from Rs.15,598 crore in April 2005 to Rs.17,235 crore by mid-January 2006. The discount range on CP moved up from a range of 5.50-6.65 per cent in April 2005 to 6.50 -7.75 per cent by mid-January 2006.

2.11.7 **Bank Rate:**

The Bank Rate was kept unchanged at 6.0 per cent.

2.11.8 **Repo Rate:**

Taking into consideration the prevailing macroeconomic and overall monetary conditions, the Reserve Bank raised the fixed reverse repo rate under the Liquidity Adjustment facility (LAF) by 25 basis points to 5.00 per cent with effect from April 29, 2005. However, the spread between reverse repo rate and repo rate was reduced by 25 basis points from 125 basis points to 100 basis points with effect from April 29.2005. Accordingly, the repo (liquidity injection) rate continued to remain at 6.0 per cent.

Further, on a review of the prevailing monetary conditions, the Reserved Bank increased the fixed reverse repo rate by 25 basis points to 5.25 per cent with effect from October 26, 2005. Simultaneously, the fixed repo rate under LAF was also raised to 6.25 per cent. The spread between the reverse repo rate and repo rate was retained at 100 basis points.

On a further review of the current macroeconomic and overall monetary conditions, the Reserve Bank increased the fixed reverse repo rate by 25 basis points to 5.50 per cent with effect from January 24, 2006 and the fixed repo rate was raised to 6.50 per cent from the same date.

2.11.9 **Deposit Rates:**

The term deposit rates of public sector banks moved from 3.75 - 6.00 per cent at end-March 2004 to 2.75 - 7.00 per cent at end-March 2005 and further to 2.00 - 7.00 per cent by December 2005.

2.11.10 **Lending Rates :**

The benchmark prime lending rates (BPLRs) of public sector banks, private sector banks and foreign banks remained unchanged in the range of 10.25 - 11.25 per cent. 11.00 - 13.50 per cent and 10.00 - 14.50 per cent respectively, during 2005-06 so far.

Pursuant to the announcement made in the mid-term Review of November, 2003, a system of benchmark prime lending rate (BPLR) was introduced. Over the period, the system of BPLR has evolved in a manner that has not fully met these expectations. Competition has forced the pricing of a significant proportion of loans far out of alignment with BPLRs and in a non-transparent manner. As a consequence, this has undermined the role of the BPLR as a reference rate. Furthermore, there is a public perception that there is underpricing of credit for corporates while there could be overpricing of lending to agriculture and small and medium enterprises. Several requests have also been received by the Reserved Bank from banks suggesting a review of BPLR system. Therefore, a need has arisen to review the current procedures and processes of pricing of credit through a well structured and segment-wise analysis of costs at various stages of intermediation in the whole credit cycle. Accordingly, the IBA has been requested to review the BPLR system afresh and issue transparent guidelines for appropriate pricing of credit.

2.11.11 **Food Credit :**

Food credit limits are disbursed by a consortium of banks led by State Bank of India(SBI), (SBI, 7 Associate Banks of SBI, other public sector banks, 16 private sector banks and 21 state co-operative banks) under a 'single window' system. The rate of interest (i.e. the average of Prime Lending Rates of five largest banks in the consortium) presently charged is 9.1 per cent. Further, with effect from August 11, 2004 the rate of interest in case of credit to Food Corporation of India(FCI) has been reduced further to 8.15 per cent following a single default guarantee by Government of India coming into place. The total food credit outstanding as on January 20, 2006 was Rs.41,197.98 crores.

2.11.12 **Export Credit :**

The reduction in ceiling interest rates on Rupees export credit by 1 percentage point across the board effective from September 26, 2001 has further been extended upto April 30, 2006. In pursuance of the policy of deregulation of interest rates on export credit, w.e.f. May 1, 2003, the interest rates on the second slab i.e. 181 to 270 days for pre-shipment credit and 91 to 180 days for post shipment credit have been made free and are to be decided by the banks subject to the approval of their Boards. Export credit disbursement by banks at pre-shipment stage increased from 163440 crores during July-June 2003-04 to Rs.179130 crores during July-June 2004-05 and at post-shipment stage from Rs.148262 crores during July-June 2003-04 to Rs.171479 crores during July-June 2004-05.

2.11.13 **Review of the Recommendations of the Advisory Groups Constituted by the Standing Committee on International Financial Standards and Codes: Report on the Progress and Agenda Ahead:**

The above Report was put in public domain by the Reserve Bank in December 2004. A review of the progress made since the publication of the last Report is under way. The Review would cover the progress made in respect of recommendations made by the 11 Advisory/Technical Group covering monetary and financial policies, fiscal transparency, data dissemination, banking supervision, securities market regulations, insurance market regulations, bankruptcy law, corporate governance, accounting and auditing payment and settlement systems and market integrity. Relevant global developments in these areas are also being reviewed.

2.11.14 **Gold Card Scheme for Exporters:**

The Government (Ministry of Commerce and Industry), in consultation with RBI had indicated in the Exim Policy 2003-04 that a Gold Card Scheme would be worked out by RBI for creditworthy exporters with good track record for easy availability of export credit on best terms. Accordingly, in consultation with select banks and exporters, a Gold Card Scheme was drawn up. The Scheme envisages certain additional benefits based on the record of performance of the exporters. The Gold Card holder would enjoy simpler and more efficient credit delivery mechanism in recognition of his good track record. The salient features of the Scheme are :

(i) Gold Card holder exporters, depending on their track record and credit worthiness, will be granted better terms of credit including rates of interest than those extended to other exports by the banks.

(ii) 'In-principle' limits will be sanctioned for a period of 3 years with a provision for automatic renewal subject to fulfillment of the terms and conditions of sanction.

(iii) A stand-by limit of not less than 20 percent of the assessed limit may be additionally made available to facilitate urgent credit needs for executing sudden orders.

(iv) Requests from card holders would be processed quickly by banks within 25 days/15 days and 7 days for fresh applications/renewal of limits and adhoc limits, respectively.

(v) Card holders would be given preference in the matter of granting of packing credit in foreign currency.

(vi) In respect of the Gold Card holders, the concessive rate of interest on post-shipment rupee export credit applicable upto 90 days may be extended for a maximum period upto 365 days.

(vii) The credit to Indian exporters should be at rates of interest not exceeding LIBOR + 0.75 percent. In case sufficient dollars are not available with the bank to lend to the exporters at a particular time, service charge at flat rate of 0.1 percent may be charged by the bank on the inter-bank foreign currency borrowings for the purpose.

2.11.15 **Tea Industry:**

It may be recalled that based on the report of the Working Group under the Chairmanship of Shri Madhukar, CMD, United Bank of India, constituted to examine the problems of the tea industry, certain relief measures mainly relating to restructuring of loans by banks were extended to the tea industry in August 2002. Later on separate Working Groups were set up to study the problems of Small Tea Growers and Bought Leaf Factories, the recommendations of which were also implemented by banks. Indian Banks Association also extended some additional relief measures to the tea industry in February 2004, which are being implemented by the banks.

2.11.16 **Coffee Growers:**

Coffee growers continued to face the problem of low prices, even as the prices realized during the year 2004-05 were higher than that realized during last few years. The benefit of high prices was nullified to some extent by the outbreak of pest attack and drought in some of the main coffee growing districts. In response to the representations made by the Coffee growers' associations, Reserve Bank of India extended additional relief measures to the coffee growers in August, 2004, which inter alia included relaxation in asset classification norms for advances availed by the growers from banks subject to certain conditions. In view of the continuing problems, GOI and banks extended interest relief to Coffee growers in June 2005.

2.11.17 **Tobacco Dealers :**

Some of the tobacco dealers were yet to come out of the problem of accumulation of large stocks consequent to steep fall in the international demand, despite extension of relief measures by RBI relating to the advances availed by the dealers from banks. It may be recalled that based on the recommendations of a Working Group constituted under the Chairmanship of Shri B. Vasanthan, then CMD, Andhra Bank to look into the problems of tobacco dealers, Reserve Bank had announced certain relief measures in January 2003 in response to the representations received from the Indian Tobacco Dealers Association, RBI advised the State Level Bankers' Committee, Andhra Pradesh to consider the applications for restructuring of accounts from those tobacco dealers whose accounts were classified as 'Standard assets' by banks.

2.11.18 **Housing:**

The individual housing finance of the banking system as a whole is showing an increasing trend in year-on-year basis in the year ended March 31, 2005. The absolute incremental credit outstanding in the individual housing loan sector for the half year ended on September 30, 2005 was higher than the figure for the corresponding period last year although the increase in percentage terms is lower due to the higher base effect.

Table 1 : Total credit outstanding in housing finance

(Amount in Rs. crores)

Item	April 2004 - Sept. 2004	April 2004 - March 2005	April 2005 - Sept. 2005
Absolute Growth	19447	45204	21250
Percentage Growth	21.74	50.54	15.78

Source: *Report on Trend and Progress of Bank in India and off-site returns.*

Presently, loans granted by banks up to Rs. 15 lakh in rural/semi-urban areas, urban and metropolitan areas for construction of houses by individuals are eligible for classification under priority sector. On the basis of data received from the scheduled commercial banks (excluding RRBs), the credit to housing sector (priority sector) increased from Rs. 76582.43 crore as on the last reporting Friday of March 2004 to Rs. 110283.43 crore as on the last reporting Friday of March 2005, showing an increase of Rs. 33,701 crore (44%). Other priority sector, comprising of inter-alia housing and small road & water transport operators, also recorded a high growth of Rs. 34880 crore or about 41% during 2004-05 as compared to 2003-04.

Further, Reserve Bank has advised all scheduled commercial banks, vide circular dated July 20, 2004, to classify the investment made by them in the mortgage backed securities (MBS) under direct lending to housing within the priority sector lending, provided it satisfies the following conditions: -

(i) The pooled assets are in respect of direct housing loans which satisfy the definition for inclusion under the priority sector;

(ii) The securitised loans are originated by the housing finance companies/banks; and

(iii) The mortgage backed securities (MBS) satisfy the conditions laid down in paragraph 3 of DBOD's circular DBOD. No.BP.BC. 106/21.01.002/2001-02 dated May 24, 2002.

2.11.19 **Small scale industries (SSI) sector:**

Small Scale Industries (SSIs) constitute an important and crucial segment of the industry sector. SSIs in India have been given a distinct identity and the Government has accorded high priority to this sector on account of the vital role it plays in balanced and sustainable economic growth. It plays crucial role in the process of economic development by value addition, employment generation, equitable distribution of national income, regional dispersal of industries, mobilisation of capital and entrepreneurial skills and contribution to export earnings.

Small Scale Industries (SSI) as also ancillary units are those units which are engaged in the manufacture, processing or preservation of goods and in which investment in plant and machinery (original cost) does not exceed Rs. 1 crore. These would inter alia, include units engaged in mining or quarrying, servicing and repairing of machinery. The investment limit of Rs.1 crore for classification as SSI has been enhanced to Rs. 5 crore in respect of certain specified items under hosiery, hand tools, drugs & pharmaceuticals industry, stationery and sports goods by the Ministry of SSI, Government of India. Ministry of SSI, Government of India has been dereserving items from the list of items reserved for exclusive manufacture in the small scale industries sector. With the dereservation of 108 items from the above list on March 28, 2005 by the Ministry of SSI, Government of India, the number of items reserved for exclusive manufacture in the small scale industries sector stood at 506.

Although, there is no sub-target for lending to SSI sector by the domestic commercial banks, the domestic banks have been advised to ensure that 40 % of total advances to SSI sector should be for limits with investment in plant and machinery up to Rs. 5 lakh, 20% for units with investment between Rs. 5 lakh and Rs. 25 lakh and the remaining 40% for other SSI units. A sub-target of 10% of net bank credit has been stipulated for lending to SSI sector by foreign banks operating in India.

Consequent upon the announcement of certain measures made by the Union Finance Minister in the Parliament on August 10, 2005 for stepping up credit to small and medium enterprises, the Reserve Bank has advised all public sector banks to take necessary action, vide circular dated August 19, 2005. The policy to be framed by the banks would cover self-targets for financing to SME sector, efforts to provide credit on an average to at least 5 new small/medium enterprises at each of their semi urban/urban branches per year, pricing of loans, collateral requirements (subject to the proviso that no collateral should be demanded on loans up to Rs. 5 lakh), adopting cluster based approach for financing SME sector, ensuring specialized SME branches in identified clusters/centres with preponderance of Medium Enterprises (only public sector banks), as well as recovery and restructuring of accounts of viable SME units (only public sector banks). These measures, except setting up of specialized SME branches in identified clusters/centres with preponderance of Medium Enterprises, have also been communicated to all private sector banks, foreign banks, Regional Rural Banks and Local Area Banks, vide circular dated August 25, 2005, for taking necessary action. All public sector banks were also advised to implement a one-time settlement scheme for recovery of NPAs below Rs.10 crore for SME accounts. The guidelines will provide a simplified, non-discretionary and non-discriminatory mechanism for one-time settlement of chronic NPAs in the SME sector. With a view to improving the flow of credit to small and medium enterprises, a debt restructuring mechanism for units in SME sector has been formulated for implementation by all scheduled commercial banks. Accordingly, the detailed guidelines have been issued to all scheduled commercial banks to ensure restructuring of debt of all eligible small and medium enterprises at terms which are, at least, as favourable as the Corporate Debt Restructuring mechanism in the banking sector.

Based on one of the recommendations of the Working Group on Flow of Credit to SSI sector (Ganguly Working Group), the interest rates on deposits placed by the foreign banks with SIDBI, in lieu of shortfall in priority sector lending targets, have been inversely linked to the extent of shortfall in the overall target (32 per cent of net bank credit) or aggregate shortfall in sub-targets SSI (10 per cent) and export credit (12 per cent), whichever is higher, as given below.

Sr. No.	Shortfall in overall target (32 per cent of net bank credit) or aggregate shortfall in sub-targets SSI (10 per cent) and export credit (12 per cent), whichever is higher.	Rate of interest on the entire deposit to be made with SIDBI (Per cent per annum)
1.	Less than 2 percentage points	Bank Rate (6 per cent at present)
2.	2 and above, but less than 5 percentage points	Bank Rate minus 1 percentage point
3.	5 and above, but less than 9 percentage points	Bank Rate minus 2 percentage points
4.	9 percentage points and above	Bank Rate minus 3 percentage points

The tenor of the deposits placed with SIDBI by foreign banks will be for a period of three years.

Consequent upon the announcement made by the RBI Governor in the Annual Policy Statement for the year 2005-06 regarding formulation of a scheme of strategic alliance between branches of banks and branches of SIDBI located in the clusters, a scheme for "Small Enterprises Financial Centres (SEFCs)" has been worked out in consultation with the Ministry of SSI and Banking Division, Ministry of Finance, Government of India, SIDBI, IBA and select banks and circulated to all scheduled commercial banks for implementation.

2.11.20 **Swarna Jayanti Shahari Rozgar Yojana (SJSRY):**
The SJSRY Scheme is in operation from December 1, 1997 in all urban and semi urban towns of India. Among other components, the scheme has two sub-schemes where bank credit is involved namely Urban Self Employment Programme (USEP) and Development of Women & Children in Urban Areas (DWCUA).

The beneficiaries are identified by the Urban Local Bodies (ULB) on the basis of house-to-house survey. Under the scheme, women are to be assisted to the extent of not less than 30%, disabled at 3% and SC / STs at least to the extent of the proportion of their strength in the local population. The scheme is funded on a 75:25 basis between central and the state governments. Under USEP, underemployed and unemployed urban youth whose annual family income is below the poverty line and who are educated up to ninth standard and who have been included in ULB list are to be assisted with bank loans. Projects costing up to Rs. 50,000/- are to be financed by banks. Subsidy would be provided by Government at 15% of the project cost subject to a maximum of Rs.7,500/-. The borrower has to bring in 5%of the project cost as margin money. Interest will be charged as per interest rate directives issued by RBI from time to time. Partnerships are also permitted. Under DWCUA, women beneficiaries may take up self-employment ventures in group. DWCUA group should consist of at least 10 urban poor women The group is entitled to a subsidy of Rs.1, 25,000/- or 50% of the project cost whichever is less.

The performance of scheduled commercial banks under the scheme during the years 2002-03,2003-04 & 2004-05 and 2005-06 (up to Sept.2005) is as under: -

(Rs. in lakh)

Year	Sanction		Disbursement	
	No.	Amount in lakh	No.	Amount in lakh
2002-03	81912	24026.70	67353	19262.71
2003-04	73887	22756.45	59648	17439.73
2004-05	61890	19926.83	48798	15067.08
2005-06 (up to Sept.2005)	22030	7182.78	17639	5426.43

Data as reported by scheduled commercial banks.

2.11.21 **Prime Minister's Rozgar Yojana:**
The scheme was launched on October 2, 1993 and initially was in operation in urban areas. From April 1, 1994 the scheme is being implemented through out the country. The objective of the scheme is to provide self -employment opportunities to educated unemployed youth in the age group of 18 to 35 years. In North East states the eligible age group is 18-40. There is 10-year relaxation for SC/ST/Ex servicemen/physically handicapped & women, in the upper age limit. To be eligible for assistance under the scheme the family income of the beneficiaries shall not exceed Rs.40000/ per annum and income of parents of beneficiary also shall not exceed Rs.40000/-. The banks have been allowed to make parents/Head of the family of unmarried girl as co-borrower, with effect from November 21, 2002. The borrower should be the resident of the area for more than 3 years. The residency criterion for married men in Meghalaya is relaxed in line with married women in rest of the country.

The minimum educational qualification fixed is VIIIth pass. The beneficiary would be required to bring in 5% as margin money and government would provide a subsidy at 15% of the project cost. It has also been provided that the margin money and subsidy amount would be 20% of the project cost. Ceiling on subsidy amount will be Rs. 7500/- in States/ UTs other than in North Eastern Region. In the seven states in North East the ceiling on subsidy amount payable will be Rs.15000/- This relaxation in parameters has also been extended to the states of Sikkim, Himachal Pradesh, Jammu & Kashmir and Uttaranchal. All economically viable activities including agricultural and allied activities but excluding direct agricultural operations like raising of crops/ purchase of manure etc. are now being covered under the scheme.

Projects up to Rs.1 lakh in business Sector and up to Rs.2 lakh in other sectors will be eligible for finance by banks. In case of partnership firm projects up to Rs.10 lakh can be undertaken and loan amount will be to the extent of individual admissibility.

A reservation of 22.5% for SC/STs and 27% for other backward classes (OBCs) has been provided. Preference is to be given to women and other weaker sections. Banks have also been advised to ensure a fair and adequate share to the minorities. No third party guarantee / collateral is necessary for projects up to Rs.1 lakh and the advances under the scheme are treated as advances under priority sector.

The performance under the scheme during the years 2001-02, 2002-03,2003-04, 2004-05 and 2005-06 (up to January 2006) is as under: -

(Amount Rs.in. lakh)

Programme Years	Loan Sanctioned No.	Loan Sanctioned Amt.	Loan Disbursed No.	Loan Disbursed Amt.
2001 -2002	237392	153918	189860	118480
2002 -2003	228031	149699	190521	119847
2003 -2004	264012	167890	219444	136755
2004 -2005	293729	86959	215650	130835
2005 -2006 (upto Jan 2006)	55746	35938	32640	19725

2.11.22 **Flow of Credit to minority communities :**
Under the present arrangements, banks have to ensure that credit is made available to the members of minority communities like Sikhs, Muslims, Christians, Zoroastrians and Buddhists in an adequate measure. However, no sub-target has been earmarked to the priority sector lending for the minority communities. Although there is no special earmarking of targets for minority communities available data indicate that the flow of credit to these communities in the identified districts by public sector banks has steadily increased from 3581.21 crore in 2003-2004 to Rs.4608.24 crore in 2004-2005.

Flow of Credit to minority communities

(Amount Rs. in lakh)

Year	Amount of credit
2002-2003	237508
2003-2004	358121
2004-2005	4608.24

2.11.23 **Development in the North-Eastern States:**

The performance by all Scheduled Commercial Banks (SCBs) under SGSY & SJSRY and SLRS in the North Eastern States during the year ended March 2003, 2004 & 2005 is indicated below:

(Amount in lakh)

Scheme	2002-03				2003-04				2004-05			
	Sanctioned		Disbursed		Sanctioned		Disbursed		Sanctioned		Disbursed	
	NO	AMT	NO	AMT	NO	AMT	NO	AMT	NO	AMT	NO	AMT
SGSY	NA	NA	19960	1781.9	NA	NA	32914	2532.8	16570	6559.7	60561	6057.1
SJSRY	3891	1737.8	3582	1585.9	3720	1705.1	3673	1610	1754	630.2	1664	595.7
SLRS	53	7.8	53	7.7	47	5.9	41	5.5	35	4.9	35	4.8

data as reported by SCBs

2.11.24 **Prime Minister's Rozgar Yojana**

The performance under the PMRY scheme during the years 2001-02, 2002-03, 2003-04, 2004-05 and 2005-06 (up to January 2006) is as under.

(Amount in Rs. lakh)

Programme	Loan Sanctioned		Loan Disbursed	
Years	No.	Amt.	No.	Amt.
2001 -2002	7378	5716	5980	4588
2002 -2003	8539	6883	6595	5115
2003 -2004	12584	9107	10306	7591
2004 -2005	15471	13346	6252	4078
2005 -2006 (up to Jan 2006)	5103	3600	4120	2415

Data as reported by scheduled commercial banks.

2.11.25 **Swarnajayanti Gram Swarozgar Yojana (SGSY)**

The Ministry of Rural Development, Government of India launched a restructured Poverty Alleviation Programme, the Swarnajayanti Gram Swarozgar Yojana (SGSY) with effect from April 1, 1999 subsuming the erstwhile IRDP and its allied programmes viz. Training of Rural Youth for Self Employment (TRYSEM), Development of Women and Children in Rural Areas (DWCRA), Supply of Improved Tool kits to rural Artisans (SITRA), Ganga Kalyani Yojana (GKY) and Million Wells Scheme (MWS). SGSY focus on group approach and major share of assistance is for 4-5 identified key activities in a block and 50 % of the groups formed in a block should be women groups. The scheme lay stress on training, credit, infrastructure and marketing needs of the beneficiaries and is being implemented by commercial banks, cooperative banks and Regional Rural Banks.

The scheme aims at establishing a large number of micro enterprises in the rural areas of the country. The objective of the scheme is to bring every assisted family above the poverty line by providing them with income generating assets through a mix of bank credit and Government subsidy.

The year 2004-05 was the sixth year of implementation of the scheme and under the scheme a total number of 1084749 Swarozgaris received bank credit amounting to Rs. 95813.48 Lakh (and Government Subsidy amounting to Rs.38101.05 Lakh) under Swarnajayanti Gram Swarozgar Yojana (SGSY) as at the end of March 2005. Under the programme, the following sub targets have been set: SC/ST 50%, Women 40% and Physically Handicapped 3%. As against this, out of the total Swarozgaris assisted, 285395 (26.30 percent) belonged to Scheduled castes (SCs) and Scheduled Tribes (STs), while 338391 (31.19 percent) were women and 10126 (0.93 percent) were disabled/physically handicapped.

The performance of scheduled commercial banks under the scheme during the years 2002-03, 2003-04 & 2004-05 and 2005-06 (up to Sept.2005) is as under: -

(Amount in Rs. lakh)

Year	TOTAL LOANS DISBURSED	TOTAL AMOUNT DISBURSED
2002-03	719293	73361.13
2003-04	991062	84080.98
2004-05	1084749	95813.38
2005-06 (up to Sept.2005)	417121	34633.63

Data includes the amount disbursed to individuals and SHG groups as reported by scheduled commercial banks.

2.11.26 **Scheme of Liberation & Rehabilitation of Scavengers (SLRS)**

The Scheme was introduced in 1993 and is implemented by all Public Sector Banks except RRBs. The objective of the Scheme is to liberate and rehabilitate scavengers and their dependants from the existing obnoxious occupation of manually removing night soil and filth and to provide them with alternate dignified occupation. The Scheme covers all scavengers and their dependents (both the scheduled caste scavengers and non-scheduled caste scavengers) in the country. Under the scheme projects upto Rs.50,000/-can be financed. Subsidy is available to borrowers at 50% of project cost subject to a maximum of Rs.10,000/- . The borrowers can also avail margin assistance at 15% of the projects cost at 4% rate of interest from State Scheduled Castes Development Corporation. All loans upto Rs.6,500/- will be treated as DRI loan at concessional rate of 4%.However, where the amount of loan exceeds Rs.6500/- the entire loan will carry interest as per RBI directive on interest rates. Security for the loan will be only hypothecation of assets created out of the loan. The State Scheduled Caste Development Corporation will have second charge/pari-pasu charge over the assets to cover their margin money loan assistance. The loans shall be repaid within 3 to 7 years (inclusive of grace period not exceeding 6 months) depending on the life of the assets created and repaying capacity of beneficiaries.

During the year 2004-05, of the total 10206 applications sanctioned under the scheme, 8209 cases were disbursed amounting to Rs. 1574.22 lakh by the Public Sector Banks as on March 2005.Further during the year 2005-06 (up to Sept. 2005), the Public Sector Banks have sanctioned 4619 applications under the scheme, out of which 3878 cases were disbursed amounting to Rs. 496.99 lakh.

The performance of public sector banks under the scheme during the years 2002-03, 2003-04 & 2004-05 and 2005-06 (up to Sept.2005) is as under: -

(Rs.in lakhs)

Year	Sanction		Disbursement	
	No.	Amount in lakh	No.	Amount in lakh
2002-03	12705	2361.75	11467	2016.75
2003-04	9556	1870.80	7852	1378.81
2004-05	10206	2134.40	8209	1574.22
2005-06 (up to Sept.2005)	4619	761.19	3878	496.99

Data as reported by scheduled commercial banks.

2.11.27 **Educational Loan:**

The Reserve Bank had circulated an Educational Loan Scheme to all scheduled commercial banks in April 2001 for implementation by them. The Scheme was prepared by Indian Banks' Association (IBA) for providing financial support from the banking system to deserving/meritorious students for pursuing higher education in India and abroad. The salient features of the Scheme are:

(a) It covers courses in school and colleges in India and abroad;

(b) Loans to be provided up to Rs.7.5 lakh for studies in India and up to Rs. 15 lakh for studies abroad;

(c) No collateral or margin required for loans up to Rs. 4 lakh;

(d) Interest not to exceed PLR for loans up to Rs.4 lakh and PLR +1% for loans above Rs. 4 lakh; and

(e) Repayable over a period of 5-7 years after expiry of the course period.

The Finance Minister, in his Union Budget for the year 2004-05, had announced that banks may waive collateral security for education loans up to Rs. 7.5 lakh, if a satisfactory guarantee is provided on behalf of the student. The commercial banks have been advised by Indian Banks' Association (IBA) to waive the collateral requirements for educational loans as under:

(i) Up to Rs. 4 lakh : No security.

(ii) Above Rs. 4 lakh and up to Rs. 7.5 lakh: Collateral in the form of a satisfactory third party guarantee.

(iii) Above Rs. 7.5 lakh: Collateral security of suitable value or co-obligation of parents/guardians/third party along with the assignment of future income of the student for payment of instalments.

2.11.28 **National Housing Bank's (NHB's) Activities and Operations**

1. RESOURCES

The Bank continued its persistent efforts to build a low cost resource base by tapping diversified sources, where funds are available at competitive rates for preferred tenures. During the year [July 2004 - June 2005], resources were raised by issuing bonds as under :

2.11.29 **Capital Gains Bonds :**

The Bank continued to mobilise funds by issuing Capital Gain Bonds at coupon rates of 5.25% per annum payable annually (having a tenor of 7 years with put and call option at the end of 5th year) and 5.10% (having a tenor of 5 years with put and call option at the end of 3rd year) till November 30, 2004. With effect from December 01, 2004, the interest rate structure on Capital Gain Bonds underwent changes as under :

[percentage per annum]

Period	For 5 years with put/call option at the end of 3 years	For 7 years with put/call option at the end of 5 years
1.12.04 to 15.02.05		
(for amounts up to Rs.1 crore)	5.35	5.50
(for amounts of Rs.1 crore and above)	5.45	
16.02.05 to 15.04.05 *	5.45	5.50
16.04.05 to present	5.25	5.35

* *Distinction in rate of interest between amounts upto Rs.1 crore and for amounts of Rs.1 crore and above was removed w.e.f 16th February 2005.*

Total amount of Rs.2997.32 crore was mobilized through Capital Gains Bonds during the year ended 30th June, 2005.

2.11.30 **Taxable Bonds :**

During the year, total amount of Rs.1100 crore was mobilized through Taxable Bonds.

2.11.31 **Commercial Paper :**

During the year the Bank came out with 9 issues of Commercial Paper (CP). The face value of the CPs ranged from Rs.50 crore to Rs.300 crore and the term of the papers ranged between 81 days and 365 days. As on June 30, 2005, Commercial Papers to the tune of Rs.769.61 crore were outstanding.

2.11.32 **Priority Sector Bonds :**

In November '04, the Bank mobilised a sum of Rs.250 crore by issuing Priority Sector Floating Rate Taxable Bonds Series I and II, having tenure of four and three years respectively with a put and call option at the end of one year. The Bonds were floated at a spread of 10 bps over the 1 year GOI (semi-annual) benchmark.

2.11.33 **Developments during July 01 - December 10, 2005**

The Bank further mobilized Rs.1407.39 crore through Capital Gains Bonds during the period July 01 - December 10, 2005. As on December 10, 2005, an amount of Rs. 1424.55 crore was outstanding under the Line of Credit facility.

With effect from August 16, 2005, the interest rate structure on our Capital Gains Bonds underwent a change as under -

Period	For 5 years with put/call option at the end of 3 years	For 7 years with put/call option at the end of 5 years
16.04.05 to 15.08.05	5.25 % p.a.	5.35 % p.a.
15.08.05 to present	5.50 % p.a.	5.60 % p.a.

2.11.34 **DEPLOYMENT**

A. Refinance : During the year 2004-05, refinance aggregating Rs.7500.04 crore was disbursed, as against Rs.3252.90 crore disbursed last year, registering a growth of around 131%.

This includes refinance assistance of Rs. 3536.16 crore made in respect of housing loans disbursed by the Primary Lending Institutions (PLIs) under the Golden Jubilee Rural Housing Finance Scheme (GJRHFS), at 47% of the total refinance disbursement of Rs.7500.04 crore during the year. To promote rural housing, the Bank lent its refinance at an interest concession of 50 basis points which has resulted in considerable growth in disbursals under the Scheme.

2.11.35 **Scheme for Short Term financial Assistance to HFCs**

While NHB extends refinance assistance to housing finance companies (HFC) in respect of housing loans disbursed by them, these institutions have to meet their short term liquidity requirements from competitive market sources. In order to cater to this need, NHB had introduced a scheme during the year 2003-04 to provide financial assistance to the HFCs for their short term liquidity requirements arising in the normal course of business.

During the year 2004-05, disbursements of Rs.562.20 crore were made under the Short Term Scheme.

The following modifications were made in the Refinance Scheme of the Bank with effect from July 1, 2005 :

* Ceiling of loan eligible for refinance assistance in the case of HFCs and SCBs has been fixed at Rs.50 lakhs.
* Norm of Net NPA to Net Advances in the case of Banks has been reduced from existing level of 10% to 5%.
* The maximum period of refinance assistance has been reduced from existing level of 15 years to 10 years in the case of Urban Co-operative Banks(UCBs), State Co-operative Banks, Regional Rural Banks, Apex Co-operative Housing Finances Societies(ACHFS) and Agricultural Rural Development Banks.
* Ceiling of loan eligible for refinance assistance in the case of Regional Rural Banks has been enhanced from Rs.10 lakhs to Rs.15 lakhs.
* The Scheme for Short Term Financial Assistance to HFCs introduced during the year 2003-04 was modified based on market response and client feedback. NHB disbursed Rs. 562. 20 crore during the year 2004-05 under the Short Term Scheme for Housing Finance Companies as against Rs. 84 crore disbursed during the last year.

2.11.36 **Development during July-November 2005**

The Bank disbursed Rs. 1017.81 crore during the 5 month period July-November 2005. At the end of November 2005 the cumulative refinance disbursal of NHB stood at Rs. 21659.11 crore.

B. Project Finance : During the year, the Bank sanctioned finance for 12 projects. The disbursals under Project Finance aggregated to Rs.27.17 crore. An aggregate of 46,222 dwelling units have been constructed with this assistance so far.

Cumulatively, till the end of June 2005, the Bank has sanctioned 384 projects having project cost of Rs.2808.14 crore and loan component of Rs.1971.58 crore. Of these 384 projects, 228 projects were financed through the refinancing route and the remaining 156 projects were financed through direct finance window. So far, the Bank has disbursed Rs.658.30 crore as project finance of which Rs.245.79 crore was disbursed as refinance, and the remaining Rs.412.52 crore as direct finance. The total number of dwelling units that have received finance from NHB is 1,99,445 and the number of plots that were covered for housing project development was 17, 936.

Other Highlights under Project Finance :

* In its first initiative to support the housing needs of the micro financing institutions, the Bank disbursed loan to an NGO, SPARC Samudaya Nirman Sahayak for construction of 147 flats for slum dwellers in Dharavi, Mumbai.
* During the year, the Bank also sanctioned its first loan to a Federation of Women Self Help Groups (SHGs), Sri Padmavathy Mahila Abyudaya Sangam at Tirupati for construction of 300 houses in slums at various places in Tirupati.
* Rs. 10.80 crore was sanctioned to SHARE Micro Finance Ltd., a Micro-Financing Institution based at Hyderabad, for construction and up gradation of 4500 houses of women group members.
* Extending the support to Tsunami affected people in coastal Andhra Pradesh, Rs.70 crore was sanctioned to Andhra Pradesh State Housing Corporation Limited for construction of 40,000 dwelling units.
* The Bank released a Handbook on Rural Housing and Infrastructure, a comprehensive document covering various aspects of rural housing including policy perspectives, technical and financial issues, cost-effective construction technologies and plans and estimates of cost. The Book is intended to help various agencies in rural housing for the implementation of rural housing projects. The Book was released by the Hon'ble Minister for Rural Housing, Dr. Raghuvansh Prasad Singh in June, 2005.
* National Housing Bank has adopted comprehensive credit rating models for appraisal of the agencies that avail of direct finance for projects undertaken by them. The rating models cover State Housing Boards, Municipal Corporations, NGOs/MFIs, the Private Sector and Employee Housing. As per the new model, the projects are also rated by the Bank, in addition to rating of the agencies. The objective is to measure the risk involved in lending to various agencies.

2.11.37 **Developments during July 01 - December 15, 2005**

During the period July 01 - December 15, 2005, project finance of Rs.366.00 crore was sanctioned for 3 projects having a total cost of Rs.374.65 crore. An amount of Rs.105.30 crore was disbursed during this period. The Bank also formulated a special scheme for the victims of Tsunamis, under which a special assistance of Rs. 70.00 crore was sanctioned. The first instalment of Rs.20.00 crore has already been disbursed.

2.11.38 **REGULATION & SUPERVISION**

Regulatory Issues

Having considered it necessary in public interest and for the purpose of regulating the housing finance system, the Bank issued/ modified its Directions to the housing finance companies on the following aspects, during the year:

(i) The rate of interest payable on premature repayment of a public deposit (after the minimum lock in period of three months) shall be two per cent lower than the interest rate applicable to the deposit for the period for which the deposit has run or if no rate has been specified for that period, then three per cent lower than the minium rate at which the public deposits are accepted by that HFC.

(ii) It has been made obligatory for an HFC to intimate the details of maturity of the deposit to the depositor at least two months before the date of maturity of the deposit.

(iii) All deposit accounts standing to the credit of sole / first named depositor in the same capacity shall be clubbed and treated as one deposit account for the purpose of premature repayment.

(iv) In the context of premature repayment of deposits, HFCs have been classified into two categories, viz. normally run HFCs and problem HFCs

(v) A normally run HFC can permit premature repayment of a public deposit after the lock-in period at its sole discretion only and premature closure cannot be claimed as a matter of right by the depositors.

(vi) Problem HFCs have been prohibited from making premature repayment of any public deposits or granting any loan against public deposits except in the case of

a) death of the depositor; or

b) in the case of "tiny deposits" in entirety ("tiny deposits" have been defined as the aggregate amount of public deposits not exceeding Rs.10,000/- standing in the name of the sole or the first named depositor in the same capacity in all the branches of the HFC); or

c) to enable the depositor to meet expenses of an emergent nature up to an amount not exceeding Rs.10,000/-.

(vii) Housing/Project Loans guaranteed by Central/State Governments have been assigned a risk weight of zero per cent. However, where guarantee has been invoked and the concerned Government has remained in default for a period of more than 90 days after the invocation of guarantee, a risk weight of 100 per cent is assigned.

(viii) HFCs not accepting/holding public deposits and having an asset size of less than Rs.100 crore have been exempted from submitting the quarterly return on statutory liquid assets.

(ix) To provide stimulus for increasing the institutional flow of funds for housing in the rural areas, a term loan granted to an agriculturist or to a person whose income is dependent on the harvest of crops shall be treated as a Non Performing Asset if the instalment of principal or interest thereon remains unpaid (i) for two crop seasons beyond due date if the income of the borrower is dependent on short duration crops or (ii) for one crop season beyond the due date if the income of the borrower is dependent on long duration crops (i.e. crop season longer than one year).

2.11.39 **Guidelines issued during the year :**

Besides the above, the Bank also issued the following guidelines during the year :

(i) In the context of the provisions of the Prevention of Money Laundering Act, 2002 and the need to put in place systems and procedures to help control financial frauds, identify money laundering and suspicious activities, the Bank issued detailed "Know Your Customer' Guidelines to HFCs.

(ii) With effect from the financial year 2004-05, HFCs have been permitted to withdraw from the reserve fund (created under section 29C of the NHB Act, 1987), the excess amount credited (in excess of the statutory minimum of 20%) in the previous years for any business purposes subject to suitable disclosure in the balance sheet.

The HFCs which have transferred only the statutory minimum in the previous years would be selectively permitted to withdraw from the reserve fund only for the purpose of provisioning for non-performing assets subject to the conditions that there is no debit balance in the profit and loss account, the reason for such withdrawal are stated explicitly in the balance sheet and in such cases, prior permission of NHB is required to be obtained before appropriation.

(iii) HFCs which maintain the particulars/details of the deposits, as required under the Directions, on centralised computer database have been permitted to continue to do so provided the authenticated particulars of public deposits are sent to the respective branches, up dating the information on quarterly basis i.e. as on March 31, June 30, September 30 and December 31, every year irrespective of the fact that the branches do not open deposit accounts. The information pertaining to a quarter should reach the branch concerned before 10th of the succeeding quarter.

(iv) Creation of Deferred Tax Assets (DTA) results in an increase in Tier I Capital without any tangible asset being added to the balance sheet. Accordingly, it has been clarified to the HFCs that DTA should not be considered for the purpose of calculation of Tier-I Capital / Net Owned Fund.

2.11.40 **Registration of HFCs :**

During the period 1st April, 2005 to 14th December, 2005 with further receipt of applications for grant of certificate of registration there were 44 Housing Finance Companies (HFCs) as on date who have been granted COR by the National Housing Bank. Out of the 44 HFCs, 23 HFCs have been granted COR with permission to accept deposits from the members of public.

As on date, COR has been cancelled in respect of 11 Housing Finance Companies, including 2 companies, whose COR was cancelled during the period under review. NHB exercises these responsibilities under section 29 A of the NHB Act.

2.11.41 **Measures for Public Awareness :**

As part of its efforts to create public awareness, the Bank issued a Public Notice in prominent newspapers on an all-India basis, with a view to educate the public that no housing finance company can undertake the business of a housing finance institution without obtaining a Certificate of Registration issued by NHB under Section 29A of the NHB Act, 1987. The Bank also issued three other Public Notices during the year, informing the public of the cancellation of Certificate of Registration and rejection of application for grant of Certificate of Registration in respect of individual housing finance companies.

2.11.42 **Co-ordination with other Regulatory Authorities:**

Supervision being an important function of NHB, necessary coordination with State level agencies is undertaken inter alia, through the State level Coordination Committee meetings convened by Reserve Bank of India (RBI) in different regions. During the year, the Bank attended 16 State Level Co-ordination Committee meetings convened by the RBI at its various regional offices. These meetings are held with the objective of ensuring active co-ordination among the various regulatory authorities concerned with the functioning of the housing finance companies and NBFCs, where policy as also operational issues of public interest are addressed.

2.11.43 **Supervision of HFCs:**

During the year, the Bank undertook the regulatory inspection of 16 housing finance companies under Section 34 of the National Housing Bank Act, 1987. Further, inspection of 4 companies was conducted under Section 29A of the Act, ibid, in the context of applications for grant of Certificate of Registration.

In order to ensure compliance with the provisions of the NHB Act, 1987 and the Directions framed thereunder, it was decided by the Bank to invoke penal provisions in terms of the provisions of Section 52A of the NHB Act, 1987, with effect from October 1, 2004.

NHB has been engaged in collection of information through market intelligence in different states. This helps in monitoring the activities of those HFCs who have either not applied for grant of COR or their COR has been cancelled but still reportedly continue to operate in the market. NHB has also been issuing public notices in different national/regional dailies to notify the public at large about the HFCs. This is done in public interest and to protect them from misinformation.

2.11.44 **PROMOTION & DEVELOPMENT**

Equity Participation by NHB

NHB provides equity support to the Housing Finance Companies (HFCs) under the Bank's Guidelines for extending Equity Support. These guidelines were modified during the year 2004-05 and the amendments are :

* Upto 25% of paid up capital of the HFCs catering mainly to the metro / urban areas
* Upto 50 % of paid up capital of the HFCs catering mainly to the EWS / LIG / rural segments
* In case of rights issue, NHB can subscribe at a premium price
* NHB can disinvest its holding after the expiry of 5 years or at an early date as it may deem fit.

As on 30-06-2005, NHB had equity participation in 4 HFCs. During the year 2004-05, no fresh participation in the equity of any HFC was undertaken.

2.11.45 **Setting up of 'Fraud Management Cell'**

The Bank has set up a 'Fraud Management Cell' to collect information from HFCs regarding frauds committed on housing loans. Towards this objective, the Bank issued a detailed circular during the year indicating the causative factors and suggestive remedial action. All HFCs have been advised to take necessary safeguards and exercise adequate controls to avoid occurrence of fraudulent transactions.

2.11.46 **Meeting of CEOs of HFCs**

During the year, two meetings with the Chief Executive Officers of Housing Finance Companies were held in August, 2004 at Bangalore and later at New Delhi in May, 2005. Issues like challenges in resource mobilization of the HFCs, securitization of mortgage loans, Golden Jubilee Rural Housing Finance Scheme, standardization of documents in housing finance process, Amendments to HFC (NHB) Directions 2001, geographical distribution of HFCs, Recommendations of the Committee on Standardization of Housing Loans and sharing of information on fraudulent transactions were discussed with the participants.

2.11.47 **TRAINING**

As a capacity building measure in the housing finance sector, the Bank organises various training programmes on matters related to housing finance for the personnel of the sector. During the year, the Bank organized eight training programmes. More than 250 participants from various institutions attended these programmes. Apart from increasing awareness on issues related to housing finance industry, these programmes also serve as the forum for exchange of ideas and experience among the participants and NHB. One of the programmes viz. Orientation Programme for Housing Finance, also attracted participants from neighbouring Bangladesh.

The Bank has also been providing faculty support to various institutions conducting training programmes on housing finance for their staff. The Bank also provided support in terms of design and content of in-house training programmes of the institutions. During the year, faculty support was provided to Bankers Institute of Rural Development for its specialized programme targeted for officers of RRBs. Besides this, faculty support was also provided to PNB Housing Finance Limited, Punjab National Bank, Repco Home Finance Limited and NABARD.

2.11.48 **GOLDEN JUBILEE RURAL HOUSING FINANCE SCHEME**

The Golden Jubilee Rural Housing Finance Scheme was launched in the year 1997-98 with a view to provide improved access to housing finance to people living in rural areas. The Scheme provides for construction of new dwelling unit or upgradtion of the existing one. The Scheme is implemented through various Primary Lending Institutions (PLIs) namely Housing Finance Companies (HFCs), Public Sector Banks(PSBs) and Co-operative sector institutions. The Government of India sets national targets and NHB being the monitoring agency, sub-allocates the target to each Primary Lending Institution.

During the year 2004-05, the performance of the PLIs under the Scheme was commendable with the total units financed by PLIs going up to 2, 58,562 as against the national target of 2.50 lakh dwelling units. This was a record achievement of 103% as against 97.50 % in 2003-04.

Category wise performance of the PLIs under the Scheme is presented in the following table :

Institution	Target		Achievement		Percentage of Achievement	
	2003-04	2004-05	2003-04	2004-05	2003-04	2004-05
Housing Finance Companies	1,05,500	92,250	71,697	74,001	68%	80%
Public Sector Banks	1,32,000	1,57,750	1,71,180	1,84,262	130%	117%
Co-operative Sector Institutions	12,500	—	876	299	7.00%	
TOTAL	2,50,000	2,50,000	2,43,753	2,58,562	97%	103%

For the current financial year 2005-06, a target of financing of 2, 75,000 units have been set by the Government of India.

2.11.49 **SECURITIZATION**

National Housing Bank (NHB) has undertaken thirteen issuances of Residential Mortgage Backed Securities (RMBS) involving 38,008 individual housing loans originated by six housing finance companies (HFCs) and one scheduled commercial bank aggregating to Rs.763.26 crore till 30th June, 2005, with the NHB assuming the role of Trustee (to Special Purpose Vehicle Trusts declared by NHB) in the transactions.

2.11.50 **New RMBS Issuances :**

During the year, NHB completed three issues of Residential Mortgage Backed Securities (RMBS) involving 2892 housing loans amounting to Rs.99.33 crore originated by one HFC and fully wrapped with NHB's guarantee. These were the first RMBS issues in the Indian Capital market with NHB's guarantee, conceptualized on the lines of the RMBS issued by institutions such as Fannie Mae and Freddie Mac of USA.

2.11.51 **Policy Issues pertaining to RMBS :**

The announcement of the Union Budget for the year 2005-06 to make amendments in the Securities Contracts (Regulation) Act, 1956 (SCRA) to cover securitized debt including securitized mortgage debt under the definition of eligible "Securities" in the SCRA has been a major initiative to facilitate the listing and trading of RMBS in stock exchanges. This measure is expected to provide new impetus to the development of secondary market for residential mortgage loans, enabling growth and expansion of the Indian housing finance system and improving home ownership in the country.

During the year, NHB entered into an Agreement with the Asian Development Bank (ADB) and Housing Development Finance Corporation Ltd. (HDFC) for undertaking a study for development of a Secondary Mortgage Institution in India along similar lines as the Fannie Mae in USA.

2.12 Agriculture Credit:

2.12.1 With a view to doubling the flow of agricultural credit in three years, the Govt. of India had announced a package of measures on June 18, 2004. Compared to a disbursement during the year 2003-04 to the sector of Rs. 86, 981 crore, the actual disbursement in 2004-05 was Rs.1,24,122 crore, registering a growth of 42.7% over the previous year. The disbursement in 2005-06 upto December, 2005 has been Rs.119,114 crore. A total of Rs.3015 crore has been provided as per package, as debt relief to farmers in distress, farmers in arrears and one time settlement for small and marginal farmers during 2005-06(upto December, 2005). Besides, Rs.28.26 crore has been provided by banks as advances to farmers to enable them to redeem their debts from money lenders during the year 2005-06(till December, 2005).

Agency-wise Ground Level credit Flow for Agriculture and Allied Activities.

(Rs. in crores)

Agency	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06*
Cooperative Banks	18260	20718	23524	23636	26959	30814	28,946
RRBs	3172	4220	4854	6070	7581	11827	11,145
Commercial Banks	24733	27807	33587	39774	52441	81481	79022
Other Agencies	103	82	80	80	---	—	—
Total	46268	52827	62045	69560	86981	124122	119113

* *(Upto 31st December 2005)*

2.12.2 **Kisan Credit Card Scheme (KCC)**

The Kisan Credit Card Scheme, which was introduced in 1998-99, has made rapid progress with the banking system issuing more than 580 lakh cards. The scheme has helped to augment the flow of short term crop loans for seasonal agricultural operations to farmers. Besides the existing facilities of providing crop loan, the scope of KCC Scheme has been enlarged to include term loans for agriculture and allied activities and a reasonable component to meet the consumption needs. Further, to provide adequate and timely credit support from the banking system to the farmers for their cultivation needs and to improve farmers accessibility to bank credit for production purposes, the credit delivery mechanism is being simplified and more flexibility in the use of Kisan Credit Card (KCC) is being introduced. The banks (Commerical Banks, Cooperative Banks and Regional Rural Banks) have issued about 5.8 crore cards till December, 2005 as per following details:

(In crore)

Agency	No. of KCC issued upto 31st March, 2005	No. of KCC issued during April, December, 2005
Cooperative Banks	2.78	0.28
Regional Rural Banks	0,56	0.11
Commercial Banks	1.76	0.31
Total	5.10	0.70

2.12.3 **Self Help Groups (SHGs):**

The SHGs bank linkage programme has emerged as the major micro finance programme in the country. A Target for credit linking 2.5 lakh SHGs was fixed for the year 2004-05 was fixed and against this target, 5.39 lakh SHGs were credit linked during the year. Further, a target of credit linking 3 lakh SHGs has been fixed for the year 2005-06 against which upto 31st December, 2.08 lakh SHGs has been credit linked. The active participation of women around 90% and a timely repayment continued to be the prominent features of the programme.

2.12.4 **Micro Finance:**

In pursuance of the Budget Announcement Micro Finance Development Fund (MFDEF) has been designated as Micro Finance Development and Equity Fund. The additional contribution to MFDEF is proposed to be contributed by RBI, NABARD and commercial banks in the ratio of 40:40:20. An Advisory Board for the Micro Finance Development and Equity Fund has been constituted and a draft legislation for the micro finance sector is under finalization. NABARD has decided to extend grants to banks for rating of MFIs. Guidelines for external commercial borrowings (ECBs) for NGOs engaged in micro finance activities under automatic route upto 5 million dollars in a financial year have been issued by RBI.

2.12.5 **Cooperative Credit Structure:**

The Government had set up a Task Force under Chairmanship of Prof. A.Vaidaynathan to make recommendations to revitalize the cooperative credit structure. A financial package of Rs.13,596 crore along with other measures has been approved by the Government to revitalize Short Term Cooperative Credit Structure in the country. The same Task Force was entrusted the task of making recommendations for revival of long term cooperative credit institutions. A draft report has been received and the final report of the Task Force is expected shortly.

2.12.6 **Rural Infrastructure Development Fund (RIDF):**

The Rural Infrastructure Development Fund (RIDF) was set up in the National Bank for Agriculture and Rural Development (NABARD) with an initial corpus of Rs. 2000 crore in terms of an announcement made in the Union Budget for the year 1995-96 (RIDF-I). The fund was primarily created to extend loans to State Government to enable them to complete various types of infrastructural projects which had been started in the past but could not be completed for want of funds, with contribution from Scheduled Commercial Banks based on their shortfall in priority sector and agricultural lending. RIDF-XI has been set up in 2005-06 with a corpus of Rs. 8000 crore and an amount of Rs. 6098 crore has been sanctioned till December, 2005.

2.13 The Right to Information Act, 2005

The Right to Information Act, 2005, which has come into force w.e.f. 12.10.2005, is being implemented in Banking and Insurance Division in letter and spirit. Banking and Insurance Division has already appointed a CPIO and an Alternate CPIO for looking after the requests received under the Act pertaining to Banking and Insurance Division respectively. The material required to be placed on the website has been reflected therein. To sensitize the officers of the Division, a meeting was held on 26.10.2005 under the chairmanship of AS(FS) wherein the provisions of the Act were discussed to finalize the internal procedure to be followed within the Division for timely disposal of such requests. All requests received under the Act till 31.12.2005 have been disposed of.

2.13.1 **Action taken report on Budget Announcements 2005-06**
Banking & Insurance Division
As on 31.01.2006

Sl. No.	Para No.	Text of Announcement	Status Report	Target date of implementation
1.	34	Government will focus on providing basic infrastructure to the poor, especially those in rural India and in urban slums. The Rural Infrastructure Development Fund which was revived last July will, as in the current year, be provided a corpus of Rs. 8,000 crore in 2005-06 also.	State-wise allocation of Rs.8000 crore under RIDF has been finalized by NABARD. Activities for financing under RIDF XI have also been approved. Projects worth Rs.6097.60 crore has been sanctioned till 311st December, 2005.	Action completed
2.	48	Government intends to continue with its effort to turn the focus of commercial banks, regional rural banks (RRBs) and cooperative banks towards providing credit, especially production credit, to rural households and farm households. Particularly in agricultural credit, innovations are possible. I propose to request the Reserve Bank of India (RBI) to examine the issue of allowing banks to adopt the agency model, by using the infrastructure of civil society organizations, rural kiosks and village knowledge centers, to provide credit support to rural and farm sectors.	RBI constituted an Internal Working Group to examine, inter alia, the issue of allowing banks to adopt agency model, by using the infrastructure of civil societies organizations, rural kiosks and village knowledge centers, to provide credit support to rural and farm sector. RBI has issued the circular.	Action completed
3.	49	In June 2004, I had announced my intention to double the flow of agricultural credit in three years, I had also announced an indicative target of Rs. 1,05,000 crore. Notwithstanding a below par performance by co-operative banks, together, all three arms will disburse Rs. 1,08,500 crore in the current year. Continuing on the same path, I propose to ask commercial banks, RRBs and cooperative banks to increase the flow of credit by another 30 per cent in 2005-06. Further, the public sector banks would be asked to increase the number of borrowers by another 50 lakh.	i) In the meeting of FM with CEOs of PSBs a target of Rs.1,41,000 crore, during the year 2005-06 has been finalized. ii) NABARD has been advised quarterly targets for issue of KCC to 50 lakh new farmers in the year 2005-06. The quarterly targets have been communicated to the Public Sector Banks by NABARD. iii) The total disbursement in 2005-06 upto 30th November, 2005 is Rs.104782 crore.	Action completed (Progress is being monitored)
4.	50	Cooperative banks in India, with few exceptions, are in a shambles. Six State Central Cooperative Banks and 140 District Central Cooperative Banks do not comply with Section 11 of the Banking Regulation Act, 1949. They also have difficulty in accessing refinance for agricultural credit. Alarmed by the gravity of the situation, I had appointed a Task Force to examine the reforms required in the cooperative banking system. The Task Force has submitted its report. The recommendations include: * Special financial assistance to wipe out accumulated losses and strengthen the capital base of co-operative credit institutions; * Institutional restructuring to ensure democratic institutions; and * Changes in the legal framework to empower RBI to enforce prudent financial management. I propose to accept the report in principle. I also propose to call State Governments for	Based on consultation with State Governments a package for revival of short term rural cooperative credit structure has been approved by Government on 15.12.2005 and the State Governments has been advised to convey their willingness.	

Sl. No.	Para No.	Text of Announcement	Status Report	Target date of implementation
		consultation and begin the process of implementing the recommendations in the States that show willingness to accept the recommendations.		
5.	52	The programme of linking Self Help Groups (SHGs) with the banking system has emerged as the major micro-finance programme in the country. 560 banks including 48 commercial banks, 196 RRBs and 316 cooperative banks are now actively involved in the programme. I propose to enhance the target for credit-linking in the next fiscal from 2 lakh SHGs to 2.5 lakh SHGs.	i) It has been decided to up-scale the target for credit linking of Self Help Groups for 2005-06 to 3 lakhs. ii) NABARD has been advised quarterly targets for credit linking of 3.00 lakh SHGs in the year 2005-06. The total number of SHGs financed during 2005-06 upto 30th November, 2005 is 1.88 lakhs.	Action completed (Progress is being monitored)
6.	53	At present, micro finance institutions (MFIs) obtain finance from banks according to guidelines issued by RBI. MFIs seek to provide small scale credit and other financial services to low income households and small informal businesses. Government intends to promote MFIs in a big way. The way forward, I believe, is to identify MFIs, classify and rate such institutions, and empower them to intermediate between the lending banks and the beneficiaries. Commercial banks may appoint MFIs as "banking correspondents" to provide transaction services on their behalf. Since MFIs require infusion of new capital, I propose to re-designate the existing Rs. 100 crore Micro Finance Development Fund as the "Micro Finance Development and Equity Fund", and increase the corpus to Rs. 200 crore. The fund will be managed by a Board consisting of representatives of NABARD, commercial banks and professionals with domain knowledge. The Board will be asked to suggest suitable legislation, and I expect to introduce a draft Bill in the next fiscal year.	i) NABARD has decided to extend grants to banks for rating of MFIs. ii) The additional contribution to MFDEF is proposed to be contributed by RBI, NABARD and Commercial Banks in the ratio of 40:40:20. iii) Advisory Board for the Micro Finance Development and Equity Fund has been constituted. Discussions have been held with RBI, NABARD and other stakeholders regarding draft legislation. A draft legislation is under consideration.	
7.	54	I propose to request RBI to open a window to enable qualified NGOs engaged in micro-finance activities to use the External Commercial Borrowing (ECB) window. Detailed guidelines containing necessary safeguards will be issued by RBI.	Guidelines for External Commercial Borrowings (ECB) and Non Government Organizations (NGO) engaged in micro finance activities under automatic route have been issued by RBI.	The needful has been done. Action completed
8.	62	The Government is implementing a life insurance scheme for handloom weavers which, provide insurance cover upto Rs. 50,000. At present, only 2 lakh weavers are covered. I propose to enlarge the coverage of the scheme to 20 lakh weavers in two years which will cost Rs. 30 crore per year when fully rolled out. The Government is also implementing a health insurance package for weavers. Here too, the coverage is now only for 25,000 weavers. I propose to increase the coverage to 2 lakh weavers at a recurring cost of Rs. 30 crore per year. Once the two new and enlarged schemes are approved, I propose to provide the required funds.	The Ministry of Textiles has finalized the scheme of life cover to 20 lakh weavers in consultation with LIC and health cover to 2 lakh weavers in consultation with ICICI-Lombard.	Action completed

Sl. No.	Para No.	Text of Announcement	Status Report	Target date of implementation
9.	63	The sugar industry has been under financial stress since 2001. The position became worse due to two successive droughts in certain parts of the country. The Tuteja Committee appointed by the Government has submitted its report. After a careful examination of the report, and after consulting RBI and NABARD, I propose the following financial package for the revitalization of the sugar industry: * Sugar factories that were operational in 2002-03 sugar season will be assisted to restructure. NABARD, in consultation with State Governments, RBI, banks and financial institutions will work out a scheme for providing a financial package with a moratorium of two years, on both principal and interest, and a schedule of payment having regard to the commercial viability of each unit. * Government has already reduced the rate of interest on loans from the Sugar Development Fund to 2 percentage points below the bank rate. I propose to make the same rate applicable to outstanding loans as on October 21, 2004. Indian Banks Association (IBA) and NABARD will be asked to work out a scheme under which individual sugar factories may renegotiate the rate of interest on their past high interest loans.	The Government has approved financial package for revitalization of sugar industry.	Action completed
10.	83	I had promised that a comprehensive Bill to amend the Banking Regulation Act, 1949 will be introduced in the Budget Session. In consultation with the RBI, I propose to introduce amendments to the Act * to remove the lower and upper bounds to the statutory liquidity ratio (SLR) and provide flexibility to RBI to prescribe prudential norms; * to allow banking companies to issue preference shares, since preference share capital can be treated as regulatory capital under specified circumstances as per Basel norms; * to introduce specific provisions to enable the consolidated supervision of banks and their subsidiaries by RBI in consonance with the international best practices in this regard; I also propose to introduce amendments to the Reserve Bank of India Act, 1934 -	Amendment Bill has been introduced in Lok Sabha on 13.5.2005. The Standing Committee on Finance is examining the Bill. The report of the Committee has been placed in Parliament. Government is considering the recommendations of the Committee.	Action completed
		* to remove the limits of the cash reserve ratio (CRR) to facilitate more flexible conduct of monetary policy; and * to enable RBI to lend or borrow securities by way of repo, reverse repo or otherwise.	Amendment Bill has been introduced in Lok Sabha on 13.5.2005. The Standing Committee on Finance is examining the Bill. The report of the Committee has been placed in Parliament. Government is considering the recommendations of the Committee.	Action completed

2.13.2 **Common Minimum Program of the United Progressive Alliance (Banking and Insurance Divisions)- Status as on 31.1.2006.**

Sl. No.	CMP Extracts	Comments	Status
1.	The UPA government will establish a National Commission to examine the problems facing enterprises in the unorganized, informal sector. The Commission will be asked to make appropriate recommendations to provide technical, marketing and credit support to these enterprises. A National Fund will be created for this purpose.	-	Ministry of Small Scale Industries has already constituted a National Commission on Enterprises in the Unorganized Sector/Informal Sector, Government of India vide Resolution dated 20th September, 2004. Further progress in the matter is available with Ministry of Small Scale Industries.
2.	The UPA government will give the highest investment, credit and technological priority to the continued growth of agriculture, horticulture, aquaculture, flori-culture, forestation, dairying and agro-processing that will significantly add to the creation of new jobs.	An announcement was made on 18th June, 2004 to increase the flow of agriculture credit by 30% during the current year, 2004-05 with a target of Rs.1,05,000 crores.	The target of flow of credit to agriculture and allied activities in 2005-06 has been fixed at Rs.1,41,000 crore. The disbursement upto 31st December 2005 is Rs.1,19,114.41 crore.
3.	Along with vastly expanding credit facilities for small-scale industry and self-employment, the UPA government will ensure that the services industry will be given all support to fulfill its true growth and employment potential. This includes software and all IT-enabled services, trade, distribution, transport, telecommunications, finance and tourism.	Bank credit is already available to activities enlisted in the program.	
4.	The rural cooperative credit system will be nursed back to health. The UPA government will ensure that the flow of rural credit is doubled in the next three years and that the coverage of small and marginal farmers by institutional lending is expanded substantially. The delivery system for rural credit will be reviewed.	An announcement was made in the Budget 2004-05 to double the flow of credit to agriculture in the next three years.	i) The disbursement of agricultural credit is targeted to increase to Rs.1,41,000 crore in 2005-06. ii) The Task Force set up under the Chairmanship of Prof. A. Vaidyanathan to revitalize the cooperative credit structure has submitted its report with regard to short term credit structure and the report has been accepted. A financial package of Rs.13,596 crore alongwith other recommendations has been approved by the Cabinet for implementation. iii) The same Task Force has been entrusted with the task of making recommendations with regard to revival of long term cooperative credit institutions. The Task Force has submitted the draft report.
5.	Immediate steps will be taken to ease the burden of debt and high interest rates on farm loans.	The package announced in June 2004 includes relief measures for farmers such as (i) Debt rescheduling and fresh loans for distressed farmers. (ii) One time settlement for small and marginal farmers. (iii) Fresh finance for farmers whose earlier debts have been settled through compromise or write off. (iv) Relief measures for farmers indebted to non-institutional lenders.	The progress in 2005-06 is as follows :- A total of Rs.3014.29 crore has been provided as per package, as debt relief to farmers in distress, farmers in arrears and One-time settlement for small and marginal farmers during 2005-06 (upto December 2005). Besides, 28.26 crore has been provided by banks as advances to farmers to enable them to redeem their debts from money lenders, till December, 2005.
6.	Crop and livestock insurance schemes will be made more effective.	Existing schemes need to be evaluated to see how they can be made more	Ministry of Agriculture had constituted a Joint Group on 31st August, 2004 to

Sl. No.	CMP Extracts	Comments	Status
		effective. Expert Groups can be set up to submit reports in three months time.	study improvement in existing crop insurance schemes. The Group has submitted its report. Further consultation with all the stakeholders is going on and it is expected that a modified National Agriculture Insurance Scheme will be implemented from Kharif 2006.
7.	A national scheme for health insurance for poor families will be introduced.	Finance Minister, in his Budget 2004-05 speech announced a health insurance scheme for the families living below poverty line. A subsidy of Rs.200/-, Rs.300/- and Rs.400/- per annum per family is provided to an individual, family of five and family of seven respectively.	Public Sector Insurance Companies have already launched Universal Health Insurance Scheme for coverage of BPL families. A total of 53741 families (178958 persons) have been covered till 31.12.05 in the current financial year.
8.	The UPA government will bring about a major expansion in schemes for micro-finance based on self-help groups, particularly in the backward and ecologically fragile areas of the country.	An indicative target of credit linking additional 5.85 lakh SHGs upto March 31, 2007 was set, including a target of credit linking 1.85 lakh SHGs in 2004-05.	It has been decided to up-scale the target for credit linking of Self Help Groups for 2005-06 to 3 lakhs. The total number of SHGs credit linked during 2005-06 upto 31st December is 2.08 lakhs.
9.	The UPA government will take special measures to ensure that regions of India like in the east where the credit deposit ratio is lagging, is improved substantially.	To ensure better credit deposit ratio, it is necessary to improve the absorptive capacity and infrastructure of the concerned regions. The concerned administrative Ministries need to work with State Government.	In implementation of Item 38 of the Common Minimum Programme (CMP), it was decided to set up an Expert Group under the Chairmanship of Shri Y S P Thorat, Managing Director, NABARD to examine the nature and magnitude of the problem of low CD Ratio across states/regions and to suggest measures to overcome it. The Committee submitted its Report to the Government of India on 24.2.2005. The Government has accepted the recommendations of the Group with certain modifications. It has been decided that the CD Ratio of banks should henceforth be monitored at different levels on the basis of the following parameters: Institution/Level — Indicator Individual banks at Head Office — Cu+RIDF State Level (SLBC) — Cu+RIDF District Level — Cs It has also been decided to set up Special Sub-Committees (SSCs) of DLCC in the districts having CD Ratio of less than 40, in order to monitor the CD Ratio and to draw up Monitorable Action Plans to increase the CD Ratio. RBI has accordingly issued instructions on 9.11.2005 to CMDs of all Scheduled Commercial Banks (including RRBs) and advised them to take necessary steps as stated in the circular.
10.	A major promotional package for the SSI sector will be announced soon. Infrastructure upgradation in major industrial clusters will receive urgent attention.	Major promotional package for SSI needs to be prepared by Ministry of SSI. However, regulation of interest rates must be avoided as it will adversely affect supply of credit.	RBI has accepted the recommendations of the Working Group on Flow of Credit to SSI Sector submitted by Dr. A.S. Ganguly and has issued the following guidelines to all the banks. 1) A full service approach to SME clusters. 2) Corporate linked SME cluster models may be actively promoted by banks.

Sl. No.	CMP Extracts	Comments	Status
			3) SIDBI and lead banks should also leverage the MFI and NGO experience. 4) Higher working capital limits may be provided in hilly areas and North Eastern States. 5) New Instruments may be explained for promoting rural industry. Ministry of SSI is also contemplating a comprehensive legislation for development of Small Enterprises to boost SSI Sector, including cluster financing.
11.	Competition in the financial sector will be expanded. Public sector banks will be given full managerial autonomy. Interest rates will provide incentives both to investors and savers, particularly pensioners and senior citizens.	Competition in the financial sector can be expanded partly by permitting FDI and dilution of equity in Public Sector Banks. This will also help in making Public Sector Banks more autonomous and professional. As a first step in this direction the FDI limit in Private Sector Banks has been raised from 49% to 74% under the automatic route, including investment by FIs vide notification dated 5th March, 2004. As per the decision of the Cabinet in this regard detailed guidelines are being finalized by Reserve Bank of India. For fulfillment of the above objectives, necessary consultations are already being made with RBI and the Indian Bank's Association. Once, these consultations are over, it is hoped that an Action Plan for fulfillment of the above mentioned objective, in a time bound manner would be finalized within the period stipulated by the Prime Minister.	Policy constraints as well as the regulatory constraints on competition are being removed by series of measures. Particularly RBI has emphasized corporate governance while moving determinedly away from micro regulation in favour of market discipline. Several measures for enhancing the corporate governance and improving managerial autonomy for Public Sector Banks are under discussions between Government and Reserve Bank. Indian Banks' Association is preparing a policy framework and the Boards are expected to take necessary initiative in this regard. A special facility has already been provided in the Budget for senior citizens. A regulatory regime for pension funds is under active consideration. Several efforts are being made to make interest rates more flexible. Special attention is being given to enhancing the credit at reasonable rates for agriculture and SMEs. Instructions have been issued on 22.2.05 to all Public Sector Banks for managerial autonomy. Further, Nationalised Banks have been granted autonomy in respect of appointment of statutory auditors. The banks have been granted options as under:- i) Public Sector Banks may obtain the names of Statutory Central Auditors and Branch Auditors directly from the Comptroller and Auditors General of India (C & AG) and Institute of Chartered Accountants of India (ICAI) respectively and appoint them with the prior approval of Reserve Bank of India. OR ii) The present practice may be followed and the Reserve Bank of India may appoint the SCAs in consultation with the Government of India. However, the norms of remuneration of SCAs and Branch Auditors shall continue to be prescribed by the RBI. RBI will also continue prescribing the norms for empanelment of SCAs and Branch Auditors in respect of public sector banks.

Sl. No.	CMP Extracts	Comments	Status
12.	In addition, a social obligations imposed by regulatory bodies on private banks and private insurance companies will be monitored and enforced strictly.	This can be done in consultation with RBI and IRDA.	The Division has written to IRDA to closely monitor these obligations and send periodic reports to the Government. In so far as Private Sector Banks are concerned, the status is as under:- As per RBI's report it has issued a circular on 26th July, 2004 to all the domestic scheduled commercial banks reiterating their instructions on priority sector lending and advising them to take appropriate steps to increase the flow of credit to priority sector, agriculture and weaker sections. In addition to effectively monitoring the extension of priority sector advances by private sector banks and ensuring that they achieve the target of 40%, a plan of action to ensure doubling of rural credit through banking system has been put in place and is being closely monitored.
13.	Regulation of urban cooperative banks in particular and of banks in general will be made more effective.	For this purpose, the proposed amendment to Banking Regulation Act,` needs to be quickly legislated.	A Bill has already been introduced in Lok Sabha on 13.5.2005 and the same has been referred to Standing Committee for examination. The report of the Committee has been placed in Parliament. Government is considering the recommendations of the Committee.
14.	LIC and GIC will continue to be in the public sector and will continue to play their social role.	The policy at present is to keep them in the public sector.	LIC and GIC are continuing in the public sector.
15.	Public sector companies and nationalized banks will be encouraged to enter the capital market to raise resources and offer new investment avenues to retail investors.	Nationalised banks would welcome this measure. They should be encouraged to dilute their equity.	1) In the Action Plan for increasing competition in the financial sector and devolution of full managerial autonomy to the public sector banks, one of the strategies proposed was an amendment to the Acts, 1970/80 to bring down the minimum Government equity to 33% from 51%. PMO has communicated that on this proposal PM has remarked as under:- "This item has no relation to the NCMP commitment and may therefore, be taken up separately. However, any decision in this regard to be finalized after discussion in the UPA., Government and Left Coordination Committee. 2. Since October, 2004, six banks have gone in for a Public issue further diluting percentage of Government equity and one more nationalized banks is likely to go for a follow-up public issue during the current financial year.
16.	All regulatory institutions will be strengthened to ensure that the competition is free and fair. These institutions will be run professionally.	Reserve Bank of India and Insurance Regulatory Development Authority are two regulatory institutions under the Banking and Insurance Division. The position in respect of these two institutions are as under:- i. Reserve Bank of India has been enjoined with various statutory	There is no change in the position.

Sl. No.	CMP Extracts	Comments	Status
		powers under Banking Regulation Act, 1949. These powers cover both regulatory framework and supervisory mechanism under the above Act. While the regulatory framework refers to policy framework to be followed by banks, the supervisory mechanism refers to mechanism to ensure bank's compliance with policy prescriptions. RBI has been performing the role of a regulator and as envisaged in the Banking Regulation Act, 1949 through its various provisions. However, in view of the recent developments relating to certain banks, it is felt that that RBI needs to strengthen the mechanism further to avoid deteriorations in the functioning of the banks and to strengthen the public faith in the banking industry. RBI has been asked to look into this aspect as to achieve the objective of the common minimum programme of strengthening the regulatory institutions. ii) Insurance Regulatory Development Authority (IRDA). IRDA Act was enacted in the year 1999. IRDA consists of a Chairperson, 5 whole-time and 4 part time members. Out of 4 whole time members, 3 have to be necessarily from Life, General and Actuarial sides. Thus IRDA is being run professionally, as a part from specialization, the appointment of Chairperson & whole time members are done by ACC. To ensure free and fair competition in the market, IRDA has enacted 27 regulations. IRDA periodically monitors the observance of these.	
17.	Competition in the financial sector will be expanded. Public Sectors will be given full managerial autonomy .	Competition in the financial sector can be expanded partly by permitting FDI and dilution of equity in Public Sector Banks. This will also help in making Public Sector Banks more autonomous and professional. As a first step in this direction the FDI limit in Private Sector Banks has been raised from 49% to 74% under the automatic route, including investment by FIs vide notification dated 5th March, 2004. As per the decision of the Cabinet in this regard, detailed guidelines were issued by RBI on 28.2.2005 on 'Ownership and Governance of private sector banks' and 'Roadmap for foreign banks presence in India'. For fulfillment of the above objectives, necessary consultations are already being made with RBI and the Indian Bank's Association. Once, these consultations are over, it is hoped that an Action Plan for fulfillment of the above mentioned objective, in a time bound manner would be finalized within	(a) Necessary guidelines with regard to academic qualifications for recruitment to various categories of employees have been issued by the Government on 8.9.2004. (b) Instructions have been issued on 22.2.2005 to all Public Sector Banks for managerial autonomy. (c) Amendment Bill has been introduced in the Lok Sabha on 13.5.2005 regarding removal of the present ceiling of voting rights stipulated in Section 12, Sub Section (2) of the Banking Regulation Act, 1949. (d) A paper for consolidation of Public Sector Banks/financial Institutions has been prepared and is under consideration of the Government. FM in his meeting with CEOs of PSBs and FIs on 3rd June 2005 has advised that before considering any proposal for consolidation/merger of PSBs, the Management of the concerned banks may suitably

Sl. No.	CMP Extracts	Comments	Status
		the period stipulated by the Prime Minister. In the Insurance Sector, to expand competition, necessary amendments in the Insurance Act, 1938 to increase the FDI limit from the present 26% to 49% are under process.	sensitize the unions on the need and the advantages of consolidation and their apprehensions may be allayed. Further, in his meeting with CEOs of Public Sector Banks (PSBs) held on the 18th November, 2005, the Finance Minister emphasized that to accelerate the process of consolidation in the banking sector, it is necessary that all the stakeholders are sensitized. The banks have been requested to continue and deepen the dialogue with the employees and officers to obtain a consensus in favour of consolidation. (e) Further, Nationalized Banks have been granted autonomy in respect of appointment of statutory auditors. The banks have been granted option as under:- i) Public Sector Banks may obtain the names of Statutory Central Auditors and Branch Auditors directly from the Comptroller and Auditors General of India (C & AG) and Institute of Chartered Accountants of India (ICAI) respectively and appoint them with the prior approval of Reserve Bank of India. OR ii) The present practice may be followed and the Reserve Bank of India may appoint the SCAs in consultation with the Government of India. However, the norms of remuneration of SCAs and Branch Auditors shall continue to be prescribed by the RBI. RBI will also continue prescribing the norms for empanelment of SCAs and Branch Auditors in respect of public sector banks. Restructuring of Regional Rural Banks (RRBs) As regards restructuring of RRBs, it has been decided that Sponsor Banks should be held accountable for the performance of RRBs. RRBs that adopt a new governance standard and that abide by the prudential regulations will qualify for receiving funds from the Government for their restructuring. In order to consolidate the RRBs sponsored by the same bank within a State, notifications under Sub-Section (1) of Section 23A of RRBs Act, 1976 for amalgamation of 47 RRBs into 16 have been issued.

Annexure- 1

(Ref. para 2.8.1)

Advances to the Priority Sectors by Public Sector Banks (PSBs)

(As on the last reporting Friday of)

Sector	No. of accounts (in lakh)							Amount outstanding (Rs. crore)						
	June 1969	March 2000	March 2001	March 2002	March 2003	March 2004	March 2005*	June 1969	March 2000	March 2001	March 2002	March 2003	March 2004	March 2005 *
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
I. Agriculture	1.7	160	188	158	168	190	208	162 (5.4)	45296 (14.3)	53571 (15.7)	58142 (14.8)	70502 (14.5)	84435 (15.1)	112475 (15.7)
(i) Direct	1.6	157	185	153	165	188	191	40 (1.30)	34247 (10.8)	38137 (11.2)	44019 (11.2)	51484 (10.6)	62170 (11.1)	82613 (11.5)
(ii) Indirect	0.1	3	3	5	3	2	17	122 (4.0)	11049 (3.5)	15434 (4.5)	14123 (3.6)	19017 (3.9)	22265 (4.0)	29862 (4.2)
II. Small Scale Industries	0.5	22	20	19	17	17	18	257 (8.5)	46045 (14.6)	48400 (14.2)	54268 (13.8)	52646 (10.8)	58311 (10.4)	67634 (9.4)
III. Other priority sector advances	0.4	81	80	81	88	94	85	22 (0.7)	30816 (9.7)	40791 (12.0)	59074 (15.0)	76638 (15.8)	101710 (18.1)	129984 (18.1)
IV. Total Priority sector advances #	2.6	265	288	258	273	301	319	441 (14.6)	127478 (40.3)	149116 (43.7)	171484 (43.5)	199786 (41.2)	244456 (43.6)	310093 (43.2)
V. Net Bank Credit	-	-	-	-	-	-	-	3016	316427	341291	394064	485271	560819	717304

* *Data are provisional*

\# *Inclusive of advances to setting up industrial estates, loan to software industries, food and agro-processing sector, self-help group, venture capital, etc.*

Note: *Figures in brackets represent percentages to net bank credit.*

Annexure-II
(Ref. para 2.8.1)

Advances of Public Sector Banks to Agriculture and Weaker Sections
(As on the last reporting Friday of March 2005)

(Amount in Rs. crore)

Sr. No.	Name of the bank	Direct agricultural advances		Indirect agricultural advances		Total agricultural advances		Weaker Sections advances		Total Priority Sector advances	
		Amount	% to NBC	Amount	% to NBC	Amount	% to NBC	Amount	% to NBC	Amount	% to NBC
1	2	3	4	5	6	7	8	9	10	11	12
1	Allahabad Bank	2973.60	14.24	939.50	4.50	3913.10	18.74	2210.35	10.59	9592.34	45.94
2	Andhra Bank	2603.82	15.58	473.74	2.84	3077.56	18.42	1768.99	10.59	7070.29	42.31
3	Bank of Baroda	3246.96	10.96	1327.77	4.48	4574.73	15.45	2278.88	7.69	13524.11	45.67
4	Bank of India	4883.00	14.18	2161.00	6.27	7044.00	18.68	4086.00	11.86	17682.00	51.33
5	Bank of Maharashtra	1101.42	8.86	725.22	5.83	1826.64	13.36	575.00	4.62	5306.41	42.67
6	Canara Bank	6227.00	10.83	2555.00	4.45	8782.00	15.28	3350.00	5.83	24777.00	43.11
7	Central Bank of India	3899.05	13.74	1860.69	6.56	5759.74	18.24	2927.65	10.32	14272.18	50.31
8	Corporation Bank	749.43	4.75	420.28	2.66	1169.71	7.41	505.46	3.20	6579.24	41.66
9	Dena Bank	801.52	7.16	947.19	8.46	1748.71	11.66	376.25	3.36	4754.73	42.46
10	Indian Bank	2537.45	15.17	654.25	3.91	3191.70	19.08	1809.83	10.82	8105.41	48.46
11	Indian Overseas Bank	3129.72	13.55	1049.25	4.54	4178.97	18.05	2598.67	11.25	10449.64	45.26
12	Oriental Bank of Commerce	1712.10	7.20	1806.32	7.60	3518.42	11.70	1093.59	4.60	11081.44	46.61
13	Punjab National Bank	8269.07	14.48	3391.81	5.94	11660.88	18.98	6464.58	11.32	26468.93	46.34
14	Punjab & Sind Bank	912.85	13.69	351.03	5.26	1263.88	18.19	465.12	6.98	3096.41	46.44
15	Syndicate Bank	3346.42	14.64	791.73	3.46	4138.15	18.10	2313.62	10.12	10588.52	46.32
16	Union Bank of India	4392.18	11.60	1769.03	4.67	6161.21	16.10	2755.16	7.27	18588.67	49.08
17	United Bank of India	959.00	8.32	590.00	5.12	1549.00	12.82	668.00	5.80	4509.00	39.14
18	UCO Bank	2670.59	9.99	1112.41	4.16	3783.00	14.15	1201.82	4.50	10980.00	41.07
19	Vijaya Bank	1220.01	8.75	617.30	4.43	1837.31	13.18	844.22	6.05	6176.38	44.29
	Nationalised Banks										
20	State Bank of India	16489.31	9.63	4037.00	2.36	20526.31	11.99	19732.28	11.53	62672.83	36.61
21	State Bank of Bikaner & Jaipur	1869.54	15.81	277.32	2.35	2146.86	18.16	1087.75	9.20	5327.07	45.06
22	State Bank of Hyderabad	1846.87	12.71	49.60	0.34	1896.47	13.05	777.47	5.35	6134.20	42.21
23	State Bank of Indore	1393.18	15.28	273.25	3.00	1666.43	18.27	496.51	5.44	4083.04	44.77
24	State Bank of Mysore	1010.75	12.25	217.05	2.63	1227.80	14.88	0.00	0.00	3323.47	40.28
25	State Bank of Patiala	2146.00	14.45	745.00	5.02	2891.00	18.95	1489.00	10.03	6104.00	41.11
26	State Bank of Saurashtra	971.63	15.23	238.19	3.73	1209.82	18.96	247.59	3.88	2912.20	45.64
27	State Bank of Travancore	1250.46	9.00	481.09	3.46	1731.55	12.46	525.16	3.78	5933.79	42.69
	State Bank Group	**26977.74**	**10.79**	**6318.50**	**2.53**	**33296.24**	**13.32**	**24355.76**	**9.74**	**96490.60**	**38.59**
	Public Sector Banks	**82612.93**	**11.52**	**29862.02**	**4.16**	**112474.95**	**15.68**	**62648.95**	**8.73**	**310093.30**	**43.23**

Notes: 1. *Data are provisional.*
2. *NBC - net bank credit.*
3. *Indirect agriculture is reckoned up to 4.5 per cent of Net Bank Credit for calculation of percentage of Agriculture.*

Source : *Data furnished by respective banks.*

STATEMENT SHOWING PARTICULARS OF CREDIT TO WOMEN IN THE BOOKS OF PUBLIC SECTOR BANKS FOR THE QUARTER ENDED JUNE 2005.

(Amt. In Lakh)

Name of the Bank	Net Bank Credit	Credit to Women			Of Credit to Women				Of the credit to Women under Priority Sector							
					Under P/S		Under Non P/S		Under Mircro Credit		Under SSI		Under Govt. Sponsored		Others	
		No. of A/cs	Amt. O/s	% to NBC	No. of A/cs	Amt. O/s	No. of A/cs	Amt. O/s	No. of A/cs	Amt. O/s	No. of A/cs	Amt. O/s	No. of A/cs	Amt. O/s	No. of A/cs	Amt. O/s
All bad	2225836	200000	132882.40	5.97	154000	98827.11	46000	34055.29	6000	1780.66	16000	20477.70	80000	13577.59	45000	62991.16
Andhra Bk	1774900	295505	118828.00	6.69	218981	65708.00	76524	53120.00	78557	18558.00	2563	7590.00	58530	11297.00	79331	28263.00
BOB	3312270	274418	156402.76	4.72	196995	98846.95	77423	57555.81	18008	4444.07	6403	2204.70	64955	13285.96	107629	78912.23
BOI	3612927	298908	211770.00	5.86	203868	126687.00	95040	85083.00	125716	42077.00	5448	19341.00	60311	15059.00	72703	62568.00
BOMah	1300040	122452	65837.42	5.06	69565	42470.36	52887	23367.06	4450	2229.55	1079	1061.09	36164	10168.55	27872	29011.16
Can Bk	5629400	675634	387900.00	6.89	581130	299100.00	94504	88800.00	123910	15600.00	11748	37800.00	153347	24300.00	445472	245700.00
C B I	2783600	270695	150999.00	5.42	203693	98081.00	67002	52918.00	50803	22787.00	8706	16036.00	98698	34257.00	60438	41907.00
Corp Bk	1804648	66175	65592.43	3.63	44654	42297.83	21521	23294.60	5164	1930.50	939	2086.20	6718	2874.68	32902	36155.97
Dena Bk	1155664	68610	36480.12	3.16	43819	25653.12	24791	10827.00	1922	1725.87	1592	1367.45	22780	4912.00	17525	17647.80
Ind Bk	1672650	323905	122074.11	7.29	223329	85663.51	100576	36410.60	2530	704.13	1254	2466.32	35298	36266.16	184247	46226.90
I O BK	2408799	397990	133688.00	5.55	286552	78974.00	111438	54714.00	111755	27055.00	2885	8503.00	65907	19743.00	106005	23673.00
O B C	2496344	90688	133488.00	5.35	69957	93760.22	20731	39727.78	10399	1793.88	1995	18310.95	23663	6859.63	33900	66795.76
P N B	6041200	595593	350892.00	5.8	457984	246980.00	137609	103912.00	18013	8160.00	28957	40267.00	192005	49607.00	195250	148533.00
P &S Bk	651188	41966	48301.00	7.42	26920	26348.00	15046	21953.00	1659	2749.00	1232	6041.00	13430	5488.00	10373	14139.00
Synd Bk	2462055	349801	173571.00	7.05	223110	109695.00	126691	63876.00	20646	8288.00	2574	9174.00	19456	5596.00	180434	86637.00
U B I	4005502	300125	205421.07	5.13	267896	156720.72	32229	48700.35	30868	7776.70	7345	34423.58	69014	19465.64	160669	95054.80
UNITED BK	1260100	224033	64868.39	5.15	187967	45899.92	36066	18968.47	70814	7450.00	15883	5651.12	89443	19545.80	20782	15867.49
UCO Bk	2686000	210331	83733.68	3.11	171741	59770.39	38590	23963.29	39619	8494.95	3208	8278.88	88726	17724.75	40188	25271.81
Vijaya Bk	1382435	115265	79568.42	5.76	88103	52013.31	27162	27555.11	3239	1187.02	1861	3024.26	17366	4978.68	65637	42823.35
S B I	18156061	1953881	915065.00	5.04	1655801	690115.00	298080	224950.00	343557	89274.00	179025	128908.00	271458	121221.00	861761	350712.00
S B B J	1209656	106349	78819.56	6.52	81378	55178.92	24971	23640.64	1799	395.61	4242	11730.96	13076	2398.51	62261	40653.84
S B Hyd	1635728	401132	82510.00	5.04	250196	49935.00	150936	32575.00	93116	26086.00	3422	6602.00	26815	6299.00	126843	10948.00
S B Indore	944264	41612	39268.09	4.16	27944	19320.02	13668	19948.07	442	457.07	1868	3509.93	22975	6020.45	2659	9332.57
S B My	846015	88490	42553.00	5.03	52220	24140.00	36270	18413.00	18200	2370.00	3780	680.00	26030	17856.00	4210	3234.00
S B Patl	1576860	47208	88304.16	5.6	33595	37529.27	13613	50774.89	2238	2365.29	9148	2680.66	7416	8199.67	14793	24283.65
S B Sau	693104	49236	41239.00	5.95	26667	24882.00	22569	16357.00	700	50.00	3288	3855.00	6624	1779.00	16055	19198.00
S B Tra	1441376	113973	95632.00	6.63	78344	62834.00	35629	32798.00	8558	4695.00	11569	17378.00	14033	8065.00	44184	32696.00
Total	**75168622**	**7723975**	**4105688.61**	**5.47**	**5926409**	**2817430.65**	**1797566**	**1288257.96**	**1192682**	**310484.30**	**338014**	**419448.80**	**1584238**	**486845.07**	**3019123**	**1659236.49**

STATEMENT SHOWING PARTICULARS OF CREDIT TO WOMEN IN THE BOOKS OF PUBLIC SECTOR BANKS FOR THE QUARTER ENDED JUNE 2005.

(Amt. In Lakh)

Name of the Bank	Of the Credit to Women Under Non-Priority Sector: Under Medium & Large Industries		Others		Credit Extended under different Government Sponsored Programmes: PMRY: Total Outstandings		Against Women		Percentage		SJSRY: Total Outstandings		Against Women		Percentage	
	No. of A/cs	Amt. O/s	No. of A/cs	Amt. O/s	No. of A/cs	Amt. O/s	No. of A/cs	Amt. O/s	No. of A/cs	Amt. O/s	No. of A/cs	Amt. O/s	No. of A/cs	Amt. O/s	No. of A/cs	Amt. O/s
Alh,bk	200	6232.34	45800	27822.95	58000	38110.00	8000	4691.00	1379.00	12.31	17500	4710.00	3000	879.00	17.14	18.66
Andhra	41	8198.00	76483	44922.00	31923	13656.00	7102	3288.00	22.25	24.08	10150	2154.00	2305	567.00	22.71	26.32
BOB	0	0.00	77423	57555.81	76512	30833.08	10024	3607.67	13.1	11.70	26032	4900.85	5904	929.85	22.68	18.97
BOI	0	0.00	95040	85083.00	74446	33275.00	8985	3746.00	12.07	11.26	25094	4924.00	6337	1425.00	25.25	28.94
BkOMah	223	48.59	52664	23318.47	35233	14301.75	5516	2232.55	15.65	15.61	9151	1782.50	2874	433.97	31.4	24.34
Can Bk	1540	15600.00	92964	73200.00	64041	29895.00	8977	9250.00	14.0	30.94	13543	3070.00	9786	2108.00	72.26	68.66
C B I	2341	5833.00	64661	47085.00	98969	66874.00	16359	9528.00	16	14.00	39923	13532.00	7134	2829.00	18	21.00
Corp Bk	2	143.00	21519	23151.60	13306	6336.57	2665	1318.70	20.03	20.81	2450	500.88	1074	223.89	43.84	44.70
Dena Bk	9	1.20	24782	10825.80	24173	9256.40	3720	1494.40	15.39	16.14	7442	1481.20	2224	371.10	29.88	25.05
Ind Bk	174	144.27	100402	36266.33	26643	11251.19	4099	1688.62	15.32	15.00	6287	1269.89	384	56.97	6.1	4.48
I O BK	53	5071.00	111385	49643.00	37748	18005.00	7549	3601.00	20	20.00	16574	6915.00	5361	2213.00	32	32.00
O B C	218	9746.81	20513	29980.97	26394	12133.63	4975	2262.03	18.85	18.64	7811	1824.60	1867	437.67	23.9	23.99
P N B	322	7190.00	137287	96722.00	130475	59300.00	19743	7979.00	15	13.00	30849	8352.00	8191	1976.00	27	24.00
P &S Bk	14	3086.00	15032	18867.00	17171	9258.00	2909	2112.00	16.94	22.81	2933	863.00	632	201.00	21.55	23.29
Synd Bk	310	362.00	126381	63514.00	38799	17723.00	5020	2056.00	13	12.00	9665	2287.00	2721	760.00	28	33.00
U B I	471	7625.23	31758	41075.12	68733	35013.53	12380	6144.89	18	18.00	19526	7795.08	5871	1602.59	30	21.00
United Bk	152	1232.12	35914	17736.35	33980	17002.42	6911	4538.10	20.34	26.69	3997	925.37	1086	199.15	27.17	21.52
UCO Bk	15	530.00	38575	23433.29	47007	27345.62	9342	4813.81	19.87	17.60	14870	3118.47	3183	799.00	21.41	25.62
Vijaya Bk	0	0.00	27162	27555.11	19453	8421.30	5068	2487.37	26.05	29.54	5345	1508.78	2299	400.89	43.01	26.57
S B I	33920	25418.00	264160	199532.00	293301	168512.00	46723	32086.00	15.93	19.04	65146	26101.00	15621	9068.00	23.98	34.74
S B B J	841	2942.00	24130	20698.64	21965	9379.06	1295	400.42	5.89	4.26	11441	2037.72	1561	249.85	13.64	12.26
S B Hyd	3261	1072.00	147675	31503.00	62301	34569.00	14618	3264.00	23.46	9.44	8009	1971.00	2132	410.00	26.62	20.80
SB Indore	26	871.20	13642	19076.87	14854	6480.88	3657	1379.19	25	21.00	9701	2562.16	1744	445.29	18	17.00
S B My	198	2784.00	36072	15629.00	28014	19899.00	4115	4394.00	14.68	22.08	8739	3873.00	1284	656.00	14.69	16.93
S B Patl	856	23495.21	12757	27279.68	45429	20585.40	3021	3316.31	6.65	16.11	3422	13857.80	887	1664.32	25.92	12.01
S B Sau	12468	7673.00	10101	8684.00	18696	2118.00	2652	230.00	14.18	10.86	8116	6274.00	1439	1084.00	17.73	17.28
S B Tra	4835	13813.00	30794	18985.00	16123	10174.00	6799	3400.00	42	33.00	3568	3656.00	572	934.00	16	26.00
Total	**62490**	**149112**	**1735076**	**1139146**	**1423689**	**729709**	**232224**	**125309**			**387284**	**132247**	**97473**	**32925**		

STATEMENT SHOWING PARTICULARS OF CREDIT TO WOMEN IN THE BOOKS OF PUBLIC SECTOR BANKS FOR THE QUARTER ENDED JUNE 2005.

(Amt. In Lakh)

Name of the Bank	Credit extended under different Govt. sponsored programmes												Of total credit to Women		
	SGSY						Others						Non-Performing Assets		
	Total Outstandings		Against Women		Percentage		Total Outstandings		Against Women		Percentage				
	No. of A/cs	Amt. O/s	No. of A/cs	Amt. O/s	No. of A/cs	Amt. O/s	No. of A/cs	Amt. O/s	No. of A/cs	Amt. O/s	No. of A/cs	Amt. O/s	No. of A/cs	Amt. O/s	% of NPA to
Alh,bk	162000	32426.00	42000	6240.00	25.92	19.24	106000	8936.00	27000	1767.00	25.47	19.77	11000	5302.01	3.99
Andhra	34355	5181.00	9425	3075.00	27.43	59.35	97470	22573.00	39698	4367.00	40.73	19.35	2448	5683.00	4.78
BOB	33892	7075.06	10088	1961.30	29.77	27.72	159155	36911.71	38939	6787.14	24.47	18.39	39274	9093.56	5.81
BOI	179908	28282.00	36832	6898.00	20.47	24.39	65903	26095.00	8157	2990.00	12.38	11.46	35990	12880.00	6.08
BOMah	23986	6343.56	5695	1007.59	23.74	15.88	118278	70238.37	22079	6494.44	18.66	9.25	23634	5438.12	8.25
Can Bk	35052	9266.00	34610	4950.00	98.74	53.42	152507	18949.00	99974	8065.00	65.55	42.56	75286	23200.00	6.11
C B I	131339	38081.00	30137	8444.00	23.00	22.00	174318	55111.00	45068	13456.00	26	24.00	32440	13927.00	9.00
Corp Bk	3346	999.27	1598	590.60	47.76	59.10	11741	11825.73	1381	741.49	11.76	6.27	8835	3708.61	5.65
Dena Bk	38514	5690.00	9379	1190.00	24.35	20.91	25790	11302.40	7457	1856.50	28.91	16.43	18330	3820.48	10.47
Ind Bk	42174	8303.27	6231	685.54	14.77	8.25	380781	79941.90	24584	33835.03	6.45	42.32	20907	8392.87	6.87
I O BK	34979	12850.00	29732	10922.00	85.00	85.00	59714	8342.00	23265	3007.00	39	36.00	38601	11818.00	8.84
O B C	11433	2409.85	4006	931.88	35.04	38.67	4688	515.51	1894	253.41	40.4	49.16	12305	8839.94	6.62
P N B	178296	30698.00	42819	9976.00	24.00	33.00	316188	123357.00	121252	29676.00	38	24.00	55479	22695.00	6.46
P &S Bk	11257	2595.00	3112	1032.00	27.65	39.77	22712	7193.00	6777	2143.00	29.84	29.79	7612	8854.00	18.33
Synd Bk	19950	5485.00	6074	2135.00	30.00	39.00	28686	4279.00	5641	645.00	20	15.00	25780	6588.00	3.80
U B I	63816	14694.31	21133	4913.32	33.00	33.00	95000	25274.50	29630	6804.84	31	27.00	35672	11393.02	5.55
United Bk	59924	6936.35	34292	2877.96	57.23	41.49	247201	28228.18	47154	11930.59	19.08	42.26	30946	7706.12	11.88
UCO Bk	150516	28486.04	57695	7334.73	38.33	25.75	77120	23001.90	18506	4777.21	24	20.77	30649	3906.99	5.00
Vijaya Bk	5282	1633.24	2270	688.35	42.98	42.15	20791	6519.49	7729	1402.07	37.17	21.51	12370	5144.60	6.47
S B I	395788	123390.00	66779	23521.00	16.87	19.06	787194	466489.00	142335	56546.00	18.08	12.12	120955	100931.00	11.03
S B B J	29912	5718.77	4485	1005.83	14.99	17.59	28761	3952.64	5735	742.41	19.94	18.78			
S B Hyd	42165	8999.00	9445	2587.00	22.40	28.75	5222	380.00	620	38.00	11.87	10.00	29220	3999.00	4.85
ISB IND	13546	3942.89	3078	669.14	23.00	17.00	20131	6640.32	14496	3526.83	72	53.00	4714	2044.70	5.20
SB MYS	4770	1517.00	2020	600.00	42.34	39.55	125488	42321.00	18611	12206.00	14.83	28.16	9944	3856.00	9.06
S B Patl	4984	3713.60	2040	818.11	40.93	22.03	191721	47986.40	1468	2400.93	0.77	5.00	23	75.00	0.08
SBSAU	14423	1469.00	2452	232.00	17.00	15.79	564	1841.00	81	233.00	14.36	12.66	260	1551.00	3.76
S B Tra	10656	4297.00	3505	1393.00	33.00	32.00	12502	6347.00	3157	2338.00	25	37.00	8959	5154.00	5.39
Total	**1736263**	**400482**	**480932**	**106679**			**3335626**	**1144552**	**762688**	**219030**			**691633**	**296002**	

3. Insurance Division

3.1 **Organisation & Role:** Insurance Division is administratively concerned with the activities of both life and non-life insurance sector in India. Its function include policy formulation in insurance sector; administration of Insurance Act, 1938, Life Insurance Corporation Act, 1956, General Insurance Business (Nationalization) Act, 1972, Insurance Regulatory and Development Authority Act (IRDA), 1999; periodic review and monitoring of the performance of the public sector insurance companies; appointment of chief executives and directors on their boards, service conditions of insurance employees, coordination of vigilance activities in nationalized insurance corporation/ companies; framing of rules under the IRDA Act, 1999 and appointment of chairperson and members of the IRDA.

3.2 The Division, headed by an Additional Secretary and has one Joint Secretary, one Director, one Deputy Secretary, four Under Secretaries and four Sections.

3.3 The Life Insurance Corporation of India, the GIC Reinsurance Company, the National Insurance Company, the Oriental Insurance Company, the New India Assurance Company and the United India Insurance Company are Government owned financial institutions and subject to the provisions of the Insurance Act, 1938, the Life Insurance Corporation Act, 1956, the General Insurance Business (Nationalization) Act, 1972 and Insurance Regulatory and Development Authority Act, 1999. The Insurance Regulatory and Development Authority is a statutory body under IRDA Act, 1999.

3.4 **Human Resource Development:** Shri G. Bhujabal, former Director(Insurance) was nominated for the 31st Advanced Professional Programme in Public Administration (APPA). Shri Lalit Kumar, Deputy Secretary (Insurance) has been nominated to attend the Malta-Commonwealth Third Country Training on Insurance Management from 30th January to 10th February, 2006 in Florina, Malta.

3.5 **Progressive use of Official Language:** All the offices of Life Insurance Corporation (LIC), General Insurance Corporation (GIC) and public sector insurance companies ensured compliance of Section 3(3) of Official Language Act, 1963. Hindi Day and Hindi Fortnight were organized by all the offices of the Corporation/ Companies.

The Parliamentary Committee on Official Language visited Divisional Office of New India Assurance Company Limited at Ooty on 1.10.2004, Branch Ofice of United India Insurance Company Limited at Silvasa on 7.1.2005 and Regional Office of New India Assurance Company Limited, at Vadodra on 11.1.2005 and reviewed the progress of implementation of Official Language in insurance Companies/ Corporation.

Official Language Department of GIC conducted inspections of departments regularly for implementation of Official Language. The GIC organised Hindi Week, In-House Workshops, Competitions, Distribution of MD's Shield to the best performing department and publication of quarterly in-house journal Kshitj.

General Insurance (Public Sector) Association of India (GIPSA) companies conducted workshops in various offices to create enthusiasm in implementation of the Official Language Policy. Employees were nominated for training in Hindi Typing and Hindi Stenography at the various centers. In-House Magazines in Hindi were brought out at Head Office and Regional Offices. The Town Official Language Implementation Committee (TOLIC) awarded certificates of merit and prizes to Divisional Office and Branches for their active role in implementation of Official Language Policy.

3.6 **Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes:**

In consonance with the National Policy on Reservations for SC/ST/OBC, LIC , GIC and GIPSA companies have rules which allow Concessions and relaxations for SC/ST/OBC in recruitment and promotion wherever applicable.

In compliance of Department of Personnel and Training (DOPT)'s instructions, Life and non-life insurance companies had launched a special drive to fill up the backlog vacancies reserved for Scheduled Castes/Scheduled Tribes. Overall 72% of the backlog vacancies have already been filled up. All out efforts are being made by the insurance companies to fill up the remaining vacancies at the earliest.

Dr. Ambedkar Welfare Trust of GIC and GIPSA Companies has been providing financial assistance and incentives to SC, ST & OBC employees of these Companies with a view to promote their welfare, improvement in the educational and technical skills and career advancement. The Trust has given Rs.1.5 Lakh to two SC/ST Welfare Groups in this financial year for carrying out welfare activities at "CHAITYA BHUMI", Dadar, Mumbai. Approx. Rs.5 Lakh has also been earmarked by the Trust for bearing expenses on providing higher level trainings to SC, ST and OBC employees at National Insurance Academy, Pune.

The Parliamentary Committee on the Welfare of SCs/STs visited Goa on 29th October, 2005 to review the implementation of Government Guidelines on reservations for and employment of SCs/STs in respect of Life Insurance Corporation of India.

3.7 In pursuance of the Government guidelines, each company has a structured mechanism to look after the interests of SC/ST employees in service matters and in particular to ensure that the Brochure provisions in this regard are strictly adhered to all over the company.

3.8 **Redressal of Public Grievances :** In LIC trained personnel i.e. Customers Relation Executives in the Branch Offices and Customers Relation Managers in the Divisional Offices deal with complaints from the policyholders, agents, other offices and Government Agencies. Grievance Cells at all offices have been functioning effectively to attend to the grievances of the customers. For easy access to the aggrieved Policyholders can meet the Grievance Redressal Officers on Mondays between 2.30 pm to 4.30 pm without prior appointment. The names of Grievance Redressal Officers are published in leading news papers for wide publicity.

The Head Office and Regional Offices of GIPSA companies have set-up separate Grievances Redressal Departments headed by officer experienced in customer services. During the period 2004-05, the performance of the companies has been as below:

Company	Grievances outstanding as on 1.4.2004	Grievances reported	Grievances redressed	Grievances outstanding as on 31.3.2005
National	785	2465	2756	494
New India	1032	1813	2269	576
Oriental	185	2004	2085	104
United	317	955	887	385

3.9 **Reforms in Insurance Sector:** The insurance reforms were set in with opening of insurance sector and constitution of the Insurance Regulatory and Development Authority (IRDA) through the enactment of the Insurance Regulatory and Development Authority Act, 1999. The core functions of the Authority are licensing of insurers and insurance intermediaries; financial and regulatory supervision; control and regulate premium rates and protection of the interests of the policyholders. The Authority has issued regulations on protection of the interests of policyholders; obligations towards the rural and social sectors; and licensing of agents, corporate agents, brokers, and third party administrators. This is in addition to the regulatory framework provided for registration of insurance companies, maintenance of solvency margin, investments and reporting requirements. The Authority which is responsible for development of insurance sector has taken the following initiatives in important fields relating to insurance sector.

3.9.1 **Micro-Insurance**

For a long time a need has been felt for having insurance products which can be afforded by the rural and urban poor. Keeping in perspective the abysmal insurance coverage to the poor (rural & urban) the Authority as part of its developmental role put across the concept of micro-insurance.

The focus of the micro-insurance regulations is to provide a platform and rules to provide insurance to the targeted segment of the society. The regulations provide for a tie up between a life & a non-life insurance company for distribution of insurance products to improve the penetration of insurance in the selected segment. Thus cross selling which is not being allowed in general for other insurance products is allowed for micro-insurance. This is one of the major initiatives taken in the micro-insurance regulations. The regulations also define micro-insurance agents, which can be Self Help Groups, Micro-Finance Institutions and Non-Governmental Organizations. A major departure from the existing norms for licensing agents is that the micro-insurance agents would have to undergo a capacity building training of twenty five hours which will be provided by the insurance company to whom the agent is attached and that the micro-insurance agent need not have to pass the test to become a certified agent. This change is designed to provide a much needed fillip to the distribution channels in rural India for marketing low value products which till date was an area of concern since getting agents in rural areas has been a perennial problem.

Since distribution will be one of the important keys to the success of micro-insurance, the Authority has taken care to provide enough incentives for micro-insurance agents to take the task of spreading insurance to the poor earnestly. The micro-insurance agent would also perform functions like collection of proposal forms, remittance of premium to the insurance company, help in settlement of claims, administration of policies; etc .The micro-insurance agent would be trained in all these functions as part of capacity building by the insurance company at their cost. In life insurance products the commission on renewal premiums taper from 7.5 percent in the second year to 5 per cent from fourth year onwards, however, the commission/remuneration/fee on micro-life insurance products is pegged at a constant twenty percent for the premium paying term of the micro-life insurance product and ten percent on single premium micro-insurance products. For non-life micro-insurance products the commission is fixed at fifteen percent.

In order to ensure that the benefits of micro-insurance reach the people who require it the most and to see that the products are not priced out of reach of the needy, the Authority has allowed term & endowment insurance to a maximum of Rs 50,000 and a minimum of Rs 5,000. In the case of term insurance, the term of the insurance has been restricted to fifteen years with a minimum term of 5 years. No riders would be allowed and the micro-life insurance products are to be kept as simple as possible for the people to understand them. In the case of general insurance, the cover for dwellings, livestock, tools and implements range from Rs 5,000 to 50,000 per asset. Health insurance would also be provided under micro-insurance for families as well as individuals and the maximum cover will be Rs 30,000 while the minimum for individuals is Rs 5,000. For families it is Rs 10,000.

Thus micro-insurance regulations which were framed on the above would spur the insurance companies to take insurance to the poor on an economic model which would be viable socially and economically to the micro-insurance agents, insurance companies and to the insured. For encouraging the sale of micro-insurance products, it is clarified that these would form part of the mandated social and rural obligations of an insurer prescribed under the provisions of the Insurance Act, 1938.

3.9.2 **Roadmap for tariff free regime**

In the context of ensuring collection and maintenance of quality data by the insurers, indispensable for smooth transition into a detariff regime, IRDA has outlined a roadmap relating to various steps to be taken by the insurers in the areas of Underwriting, Rating of risks, Policy terms and conditions, Corporate governance and the Role of Tariff Advisory Committee. In a nutshell these guidelines emphasize the importance of improved internal capabilities and procedures and need for sophisticated actuarial/ statistical analysis for rating of risks. As per the road map, the tariffs will be discontinued effective 31st December 2006.

In order to assess the progress of the steps taken by the insurers in the areas outlined in the roadmap, the Authority has established a Steering Committee for smooth transition to non-tariff regime. The Committee will assess the extent of work to be done by the insurers in the market.

3.9.3 **Business in the rural and social sector**

Regulations were framed by the Authority on the obligations of the insurers towards the rural and social sectors and all insurers are required to fulfill these obligations on an annual basis. The regulations require insurers to underwrite business based on the year of commencement of their operations. For meeting these obligations the regulations further provide that in case the first financial year of the insurer is less than 12 months, proportionate percentage or number of lives, as the case may be, shall be underwritten. In addition, the existing public sector insurance companies are required to ensure that the quantum of insurance business in the rural and social sector underwritten by them shall not be less than what has been recorded in 2001-02.

3.9.4 **Obligations of life insurers:**

All the thirteen insurers who are in life insurance operations during the last five years have met their rural and social sector obligations. The number of policies underwritten by them in the rural sector as a percent of the total policies underwritten in the year was as per obligations applicable to them. The number of lives covered in the social sector, were above the stipulated obligations.

In the case of LIC it is stipulated that the percentage of policies issued in the rural sector for the year should not fall below the quantum of insurance business done in the accounting year ended 31st March, 2002. The insurer complied with its obligations in this regard. In addition, the number of lives covered by the insurer in the social sector was more than those covered in the year 2001-02. LIC has been extending coverage to economically weaker sections of the society through various social security group schemes targeting masses and non-conventional groups in the unorganized sector. Insurance coverage is also provided to the underprivileged through a separate fund created by the Government. Subsidies for the insurance cover are provided for power loom workers, handicraft artisans and hand loom weavers. Subsidies are also provided to the Aanganwadi workers/helpers and unorganized labour. Under the Shiksha Sahayog Yojana, scholarships are offered to children whose parents are covered under the Janashree Bima Yojana.

3.9.5 **Obligations of non-life insurers:**

All the eight private sector non-life insurers met their rural and social sector obligations in the financial year 2004-05. While the four public sector insurers complied with the rural sector obligations for the year 2004-05, in case of two insurers there was a shortfall in the compliance with respect to their social sector obligations. The number of lives covered by these two insurers was less than those covered in the year 2001-02, which is the benchmark year for the non-life public sector insurers. The Authority sought clarifications from the two insurers on the shortfall. The public sector insurers have also covered lives under the Universal Health Insurance Scheme of the Government of India which was launched in the financial year 2003-04.

3.10 **Laying of Annual Reports:** As per provisions of Section 29 of the LIC Act, 1956 the Annual Report of LIC for the year 2004-2005 were laid on the Tables of Lok Sabha and Rajya Sabha on 23.12.2005 The Annual Reports of GIC and four public sector general insurance companies for the year 2004-05 were laid on the Table of Lok Sabha and Rajya Sabha on 23.12.2005.

3.11 **Abatement of Pollution and Environmental Protection Activities :** As leading players in the General Insurance, all the four companies are committed to the cause of pollution control and environmental protection by providing related services to clients. The specially designed insurance policies covering public liability risks and pollution control measures initiated by clients and also for disaster management system favorable in containing of hazards caused after the occurrence of accidents. The provision of special discounts aims at encouraging safety, minimizing the risk of pollution and protection of environment, besides ensuing adherence of rules and regulators framed by the Government on environment protection.

3.12 **Inspection by various Parliamentary Committees:** The Study Groups of the Parliamentary Committee on the Welfare of Scheduled Castes and Scheduled Tribes discussed with the officers of United India Insurance Company Limited and LIC at Chennai and Goa respectively (during October, 2004 and October, 2005) about the arrangements in regard to the reservations for and employment of Scheduled Casts and Scheduled Tribes in these Companies.

3.13 **Life Insurance Corporation of India (LIC) :** LIC was established on 1st September, 1956 to take over the assets and liabilities of the erstwhile Insurers and to carry on life insurance business in the country. The main objective of the organisation of the life insurance business was to spread the message of life insurance in the country and mobilize people's savings for nation building activities. The insurance sector stands opened up for competition from the private life insurance companies. The Corporation also directly transacts life insurance business abroad through its branch offices in UK , Mauritius , and Fiji. Besides the branch operations, the corporation has established overseas subsidiaries jointly with reputed local partners in Bahrain, Nepal, and Sri Lanka.

LIC has announced as on 31.3.2005 the rates of bonus ranging between Rs.20 to Rs. 71/- per Rs.1000/- sum assured under assurances and Rs.18/- to Rs.30/- per Rs.1000/- cash option under annuities depending upon the plan and term of Life Insurance Policies. The interim bonus rates for assurance policies range between Rs.20/- and Rs. 66/- per Rs.1000/- sum assured. Further, the Corporation has also declared final additional bonus between Rs.20/- and Rs.1400/- per Rs.1000/- sum assured under assurances depending upon the term / duration of the amount of the sum assured.

In addition to the above regular reversionary bonuses, a Special One- Time Reversionary Bonus has been declared for all the policies eligible for reversionary bonus as on 31.03.2005. The rates of this Special One-Time Bonus range from Rs.5/-per Rs.1000 sum assured (Rs.1000 cash option for annuities) to Rs.50/- per Rs.1000/- sum assured (Rs.1000 cash option for annuities) depending upon the date of commencement of the policies.

As on 31st March 2005, LIC had 7 Zonal Offices 101 Divisional Offices and 2048 Branch Offices.

3.14 **Expenses of Management and Expense Ratio:** The expenses of management ; renewal expenses ratio and overall ratio for the last five years are given in the Table below;

Year	Expenses Of Management (Rs. In Crore)	Renewal Expense Ratio (%)	Overall Expense Ratio (%)
2000-01	6802.99	2.40	19.90
2001-02	8778.30	4.20	17.72
2002-03**	9619.71	#	17.53
2003-04**	10920.34	#	17.30
2004-05**	12439.93	#	16.57

** *Figures for the year 2002-2003, 2003-04 and 2004-05 have been regrouped as per IRDA guidelines.*

Renewal expense ratio shows negative trend and hence not calculated.

3.15 **Premium Income and Life Fund**

The year-wise position of the total premium income as well as the Life Fund with the percentage increase over the previous year during the last five years is given below;

Year	Total Premium Income (Rs. In Crore)	% Increase Over Previous Year.
2000-01	34,877.30	21.20
2001-02	49,805.93	42.80
2002-03	54,602.37	9.63
2003-04	63,496.49	16.28
2004-05	75,083.37	18.25

Year	Life Fund (Rs. In Crore)	% Increase Over Previous Year
2000-01	186,043.70	20.90
2001-02	232,900.94	24.20
2002-03**	273,004.96	17.22
2003-04**	321,753.53	17.86
2004-05**	385,639.07	19.66

** *Figures for the year 2002-2003, 2003-04 and 2004-05 have been regrouped as per IRDA guidelines.*

Investment : The total book value of investment of the Corporation and loans outstanding as at the end of 2004-05 was Rs. 4,13,800.95 crores as compared to 3,43,129.00 crores at the end of 2003-04.

3.16 **New Business : (Individual Assurance, General annuity, Pension, Unit Linked - Bima Plus and Future Plus):** During the year ended 31st March 2005 LIC transacted in India new business 187132.39 crores under 239.73 lakhs policies was generated as against Rs. 199698.02 crores under 266.26 lakhs policies during the preceding year. The decrease in new business was 8.43% in terms of Sum Assured and 10.01% in terms of number of policies over the new business of the year 2003-2004.

3.17 **Rural New Business : (Individual Assurance) :** The new business written in rural areas during 2004-05 amounts to 46037.01 crores Sum Assured under 54.84 lakhs policies as against 35651.99 crores Sum Assured under 62.19 lakhs policies during the preceding year as per the definition of rural /social sector approved by IRDA. This represent increase of 29.12% of total business on Sum Assured basis and decrease of 11.81% on number of policies basis as against 17.85% and 22.79% respectively during the preceding year.

3.18 **Group Insurance Business :** For the year ended 31st March 2005, business under Group Schemes both new and renewed was to the tune of 136286.92 crore providing cover to 306.50 lakh lives against 143398.20 crore providing cover to 252.46 lakhs lives during the preceding year. Under Group Superannuation Scheme, annuities to the tune of 82.50 crore per annum was granted to 0.43 lakhs as against Rs.214.90 crore per annum to 1.72 lakh lives during the preceding year.

3.19 **Social Security Scheme :** The Social Security Fund (SSF) was set up in 1988 -89 for providing social security through group insurance schemes to the weaker and vulnerable sections of the society. Different group insurance schemes for the approved occupations belonging to these sections are being subsidized from this fund. These schemes now provide a sum assured upto Rs. 5000/- on death with accident benefit of Rs.25,000/-. There are 24 approved occupational groups belonging to following sections of the society.

Sr.No.	Occupation .
1.	Beedi Workers
2.	Brick Kiln workers
3.	Carpenters
4.	Cobblers
5.	Fisherman
6.	Hamals
7.	Handicraft artisans
8.	Handloom weavers
9.	Handloom and Khadi weavers
10.	Lady Tailors
11.	Leather and Tannery workers
12.	Papad workers attached to 'SEWA"
13.	Physically Handicapped Self Employed Persons
14.	Primary Milk Producers
15.	Rikshaw Pullers/Auto Drivers
16.	Safai Karmacharis
17.	Salt Growers
18.	Tendu Leaf Collectors
19.	Urban Poor
20.	Forest workers
21.	Seri Culture
22.	Toddy Tapers
23.	Powerloom workers
24.	Hilly Area women

A subsidy of 50% of the premium is granted from the Social Security Fund.

The Scheme has been frozen and replaced by Janashree Bima Yojana from 10th August, 2000. Enlistment of new groups is not done. Only renewal of groups covered earlier is allowed.

In addition Group Insurance Scheme for Integrated Rural Development Programme (IRDP) / Swarnjayanti Gram Swarojgar Yojana (SGSY) beneficiaries is administered by LIC.

The no. of claims settled by LIC under the above two schemes during the last 5 years are given below;

Year	No. of Claims	
	SSGS	IRDP/SGSY
2000-01	31975	3148
2001-02	36862	2188
2002-03	30041	1280
2003-04	31290	864
2004-05	25680	918

3.20 **JANASHREE BIMA YOJANA :** In pursuant to Government's announcement in the Budget 2000-2001, LIC launched a new scheme of Group Insurance namely, 'Janashree Bima Yojana' on 10th August 2000.

The scheme provides for life insurance protection to the rural and urban poor persons below poverty line and even persons marginally above poverty line provided they belong to identified occupational group. Persons between the age 18 years and 59 years are eligible. The groups will be identified and notified by LIC in consultation with State Government/ Nodal Agency. The minimum membership of the group should be 25.

The scheme provides for cover of Rs.20,000 on natural death of the member, Rs.50,000 on death / total permanent disability due to accident and Rs.25,000 on partial permanent disability due to accident before attaining age 60 years.

The premium per member is Rs.200 out of which 50% premium is borne out of the Social Security Fund and the balance 50% premium is paid by the member or Nodal Agency or State Government. The Nodal Agency pays the amount initially at the time of submission of the proposal and subsequently on each Annual Renewal Date. The Nodal Agency shall mean the Panchayats, NGOS, Self Help Groups and any other institutionalized arrangements.

The existing Social Security Group Insurance Schemes (SSGIS) have an option to switch over to new schemes on revised terms.

During the period since its introduction LIC has identified and approved 19 new groups for their eligibility in addition to 24 occupational groups approved under Social Security Schemes.

Sr.No.	Occupation
1.	Food stuffs as Khandsari/Sugar
2.	Textiles
3.	Wood products
4.	Paper products
5.	Leather products
6.	Printing
7.	Rubber & Coal products
8.	Candle products
9.	Toys manufacture
10.	Agriculturist
11.	Transport drivers association
12.	Transport karmacharis
13.	Rural Poor
14.	Construction workers
15.	Fire crackers workers
16.	Coconut processors
17.	Aanganwadi workers and helpers
18.	Kotwal
19.	Plantation workers

The number of new lives enrolled and the no. of lives for which insurance cover was renewed under the scheme during the last 3 years is as follows:

	2002-03	2003-04	2004-05
New lives	6,36,744	17,32,357	18,19,933
Existing lives renewed	5,21,495	7,74,667	17,19,721
Total	11,58,239	25,07,024	35,39,654

The no. of claims settled by LIC during the last 3 years are as follows:

Year	No. of Claims
2002-03	9685
2003-04	15248
2004-05	16902

3.21 **Krishi Shramik Samajik Suraksha Yojana, 2001 :** In pursuant to the Government's Budget announcement 2001-2002, LIC launched a scheme of Group Insurance namely, Krishi Shramik Samajik Suraksha Yojana,2001.

The scheme provides life insurance protection, periodical lump sum survival benefit and pension to the agricultural workers. Persons between the age of 18 years and 50 years can join the scheme. At the commencement of the scheme the minimum membership should be 20.

The scheme provides for Rs.20,000/- on natural death, Rs.50,000/- on death/total permanent disability due to accident and Rs.25,000/- on partial permanent disability due to accident before attaining of age 60 years. Besides this, lump sum survival benefit is paid to the member at the end of every 10th year after entry into the scheme. Pension will be paid to the member on reaching age 60.

The member has to pay a premium of Rs.365/- per annum payable quarterly/half yearly/yearly. The Government contributes double the amount through Social Security Fund . As these members are eligible for benefits under Janashree Bima Yojana, 50% premium for the cover under Janashree Bima Yojana i.e. Rs.100/- is drawn from the Social Security Fund. The Nodal Agency pays the premium on commencement and on each annual renewal date. The Nodal Agency shall mean the Gram Panchayat who identifies agricultural workers and organize them into groups of minimum 20 and submits the details to LIC along with the premium. This scheme was sponsored by the Ministry of Labour.

The no. of new lives enrolled and the no. of lives for whom insurance cover was renewed under the Scheme during the last 3 years is as follows:

Year	2002-03	2003-04	2004-05
New lives	1,09,993	7,061	-
Existing lives renewed	28,242	49,983	36,810
Total	1,39,235	57,044	36,810

The no. of claims settled by LIC during the last three years are as follows:

Year	2002-03	2003-04	2004-05
No. of claims	103	271	169

The scheme has since been closed and only renewal is allowed.

3.21.1 **SHIKSHA SAHAYOG YOJANA (SSY):**

In pursuant to the Government's announcement in the Budget 2001-2002, LIC launched the Shiksha Sayhayog Yojana for the benefit of children of members of Janashree Bima Yojana. The scheme provides for the scholarship of Rs. 300/- per quarter to students studying in 9th to 12th standards. The beneficiary has not to pay any premium for availing the supplementary benefit of scholarship.

No. of scholarships disbursed during the last 3 years are:

Year	No. of Scholarships
2002-03	47,313
2003-04	1,60,473
2004-05	1,74,179

3.22 **Settlement of Claims :** During the year 2004-05 LIC settled 115.04 lakh claims for total amount of Rs. 23642.54 crores compared to 103.53 lakh claims for Rs. 19607.20 crores during the previous year. The percentage of outstanding claims to the claims payable during the last five years is given in the following table :

Year	% of Outstanding Claims as at the end of the year to claims payable during the year	
	% By Number	% By Amount
2000-01	1.67	3.58
2001-02	0.69	1.85
2002-03	0.23	1.11
2003-04	0.13	0.88
2004-05	0.14	0.80

3.23 **New Product Development :**

The Corporation offers a wide range to cater to the needs of different segments of people of India. There are plans for the children, females and males of all age groups. Further Corporation offers term assurance, endowment, whole life, pension and a combination of different products. The products where returns are linked to market related investments are also being offered since

2001. As at the end of the financial year 2004-05 the corporation had 41 plans under its basket to offer to new clients.

During the financial year 2004-05 LIC introduced seven new plans viz. Bima Nivesh 2004 - Single Premium assurance plan with compounded Guaranteed Addition and Loyalty Addition, LIC's Jeevan Pramukh - Limited payment with profit endowment assurance plan, LIC's Jeevan Nidhi - Endowment funding under deferred annuity with profit plan, LIC's Jeevan Anurag - With profit endowment assurance plan, LIC's Jeevan Akshay III - an immediate annuity plan, LIC's Furture Plus - Unit linked deferred pension plan & Bima Nivesh 2005 - Single Premium assurance plan with compounded Guaranteed Addition and Loyalty Addition.

VALUATION: The latest annual valuation was conducted by LIC on 31.3.2005

(1) The simple reversionary bonus rates declared are:

Plan Group	Premium Paying Term (in years)	Reversionary Bonus Rates (Rs. per thousand Assured Sum)	Interim Bonus Rates (Rs. per thousand Assured Sum)
Whole Life		71.00	66.00
Endowment Group*	< = 5	34.00	31.00
	6 to 10	34.00	31.00
	11 to 15	40.00	36.00
	16 to 20	45.00	40.00
	> = 21	50.00	46.00
Money Back	12	32.00	30.00
	15	32.00	30.00
	20	41.00	37.00
	25	45.00	42.00
Jeevan Surabhi	15	35.00	32.00
	20	42.00	39.00
	25	50.00	47.00
Jeevan Mitra and Jeevan Sathi	11 to 15	42	39
	16 to 20	46	43
	> = 21	51	47
Limited Premium Payment Endowment	< = 15	42	39
	16 to 20	46	43
	> = 21	51	47
Jeevan Anand	< = 5	30	28
	6 to 10	34	31
	11 to 15	38	34
	16 to 20	43	39
	> = 21	47	43
Jeevan Rekha	< = 5	50	46
	6 to 10	50	46
	11 to 15	45	42
	16 to 20	40	38
	> = 21	34	32
Jeevan Anurag	< = 10	20	-
	11 to 15	24	-
	16 to 20	28	-
	> = 21	30	-
New Jeevan Dhara – I	< = 5	18	18
	6 to 10	20	20
	11 to 15	24	24
	> = 16	28	28
New Jeevan Suraksha – I	< = 5	18	18
	6 to 10	21	21
	11 to 15	26	26
	> = 16	30	30

* *excluding Anticipated Endowment, Money Back, Jeevan Surbhai, Jeevan Mitra Double and Triple Cover, Jeevan Saathi, Limited Endowment (including Single Premium), Jeevan Anand, Jeevan Rekha and Jeevan Anurag Policies.*

(2) **Final additional Bonus:** In addition, final additional bonus was also declared at rates ranging between Rs. 20 and Rs. 1,400 per Rs. 1,000 sum assured in respect of policies other than Anticipated Endowment, Money Back and Jeevan Surabhi plans depending upon the term/ duration and sum assured subject to certain conditions.

(3) Special One-Time Reversionary Bonus:

The Special One-Time Reversionary Bonus declared is as under :

For the policies commencing during the period	Bonus per Rs. 1000/- Sum Assured /NCO
Upto 31.03.1981	50
01.04.1981 – 31.03.1982	45
01.04.1982 – 31.03.1983	40
01.04.1983 – 31.03.1984	35
01.04.1984 – 31.03.1985	30
01.04.1985 – 31.03.1986	26
01.04.1986 – 31.03.1987	24
01.04.1987 – 31.03.1988	22
01.04.1988 – 31.03.1989	20
01.04.1989 – 31.03.1990	18
01.04.1990 – 31.03.1991	16
01.04.1991 – 31.03.1992	14
01.04.1992 – 31.03.1993	12
01.04.1993 – 31.03.1995	10
01.04.1995 – 31.03.1997	8
01.04.1997 – 31.03.2001	6
01.04.2001 – 31.03.2005	5

3.24 **Re-insurance :** The reinsurance programme for 2004-05 was designed to minimize the risk to the Corporation by getting the maximum cover at the least cost.

3.25 **Foreign Operations :**

The corporation directly operates through its branch offices in Mauritius at Port Louis, Fiji at Suva & Lautoka and United Kingdom at Wembley. During the year 2004-05 these three foreign branches together issued 13830 policies with Sum Assured of US$ 94.17 million and First premium income of US $ 1.70 million. The total business in force of these foreign branches as at 31st March 2005 was US$ 436.50 million Sum Assured under 99,998 Policies.

LIC also operates through its joint venture companies in Gulf countries through LIC(International)BSC (C) , Nepal through LIC (Nepal) Ltd. and Srilanka through LIC (Lanka) Ltd.

3.26 **General Insurance Corporation of India (GIC):** General Insurance Corporation (GIC) was approved as the "Indian Reinsurer" on 3rd November 2000. As an "Indian Reinsurer" GIC has been giving reinsurance support to four public sector and other private general insurance companies. The Corporation has commenced reinsurance operations for life reinsurance business also w.e.f. 1st April, 2003. It continues its role as a reinsurance facilitator by managing marine hull pool and terrorism pool on behalf of Indian insurance industry. The reinsurance programme of GIC aims at optimizing the retention within the country and developing adequate reinsurance capacity.

During the year, the Corporation continued to offer maximum support for all classes of business to the Indian insurers. It has availed a new cover, the Peak Risk Facility, thereby increasing the

PML capacity to Rs.3000 crores from Rs.1500 crores. The capacity of terrorism pool managed by GIC has increased to Rs.300 crores w.e.f. 1.4.2004 from the earlier limit of Rs.200 crores. GIC continues to lead the reinsurance programme of the companies in Maldives, Kenya, Malaysia, Mauritius, Middle-East, Africa and Sri Lanka. In the process, it has emerged as a preferred Reinsurer in the Afro-Asia region. During the year 2003-04, the net premium income of the Corporation has grown to Rs.4162.98 crores, as against Rs.3832.79 crores in the previous year resulting in a growth of 8.6%. The net incurred claims were at Rs.2895.36 crores, i.e., 72.53% as against Rs.2744.40 crores in the previous year , i.e., 86.13%. Corporation has recorded a profit of Rs.1038.00 crores as against Rs.261.47 crores in the previous year. The Corporation declared a dividend of 30% for the year amounting to Rs.64.5 Crores.

The Corporation has its presence in foreign reinsurance business through its representative offices at London and Moscow. Apart from reinsurance business, GIC continues to participate in the share capital of Kenindia Insurance Company Ltd., Kenya and India International Insurance Pte. Ltd., Singapore. The Corporation has subscribed to 30% of the holdings in the initial share capital of LIC (Mauritius) Offshore Ltd., a joint venture company promoted by LIC of India in Mauritius.

3.27 **Public Sector General Insurance Companies:** After de-linking from GIC, the four general insurance companies, namely, National Insurance Co. Ltd., New India Assurance Co. Ltd., Oriental Insurance Co. Ltd., and United India Insurance Co. Ltd., formed an association known as `General Insurers (Public Sector) Association of India (GIPSA) with its headquarters at New Delhi. The four companies have a network of 95 Regional Offices, 1,373 Divisional Offices, 2,872 Branch Offices in India. The companies also have 44 overseas offices spread over 25 countries. The gross premium income of these companies during 2004-05 was Rs.14,949 crores as against Rs.14,285 crores during 2003-04, representing a growth of 4.65%. The net worth of these four companies as on 31st March, 2005 stood at Rs. 8,422 crores(Rs.7,029 crores). Profits after tax for the year 2004-05 fell to Rs.1,172 crores from Rs.1,364 crores in 2003-04. The companies have paid a total dividend of Rs.197 crores (Rs.125 crores) to the government. With the entry of private players, the share of PSU General Insurers has gone down over the years. The market share of these companies stood at 77.49% in 2004-05 as against 85.8% in 2003-04.

3.28 **Universal health Insurance Scheme (UHIS):** The four public sector general insurance companies have been implementing Universal Health Insurance Scheme for improving the access of health care to poor families. The scheme provides for reimbursement of medical expenses upto Rs.30,000/- towards hospitalization floated amongst the entire family, death cover due to an accident for Rs.25,000/- to the earning head of the family and compensation due to loss of earning of the earning member @ Rs.50/- per day upto maximum of 15 days. The Universal Health Insurance Scheme (UHIS) has been redesigned targeting only the BPL families. The premium subsidy has been enhanced from Rs.100 to Rs.200 for an individual, Rs.300 for a family of five and Rs.400 for a family of seven. The revised premium is Rs.165 for individuals, Rs.248 for a family of five and Rs.330 for a family of seven, without any reduction in benefits.

3.29 **Agriculture Insurance Company of India Ltd. (AICL):** Agriculture Insurance Company of India Ltd. (AICL) was established on 20th December, 2002 to promote crop insurance business and to protect the farmer against the crop losses suffered due to natural calamities. General Insurance Corporation of India (GIC), NABARD and four public sector general insurance companies have contributed towards the share capital of the Company. The authorized capital of the company is Rs.1500 crores with initial paid-up capital of Rs.200 crores. The company is located in New Delhi. The Company received approval from Insurance Regulatory & Development Authority (IRDA) on 12th March, 2003 to transact crop insurance business.

3.30 **National Agricultural Insurance Scheme (NAIS):** The Government of India introduced the scheme from Rabi 1999-2000 season to protect the farmers against losses suffered by them due to crop failure on Account of Natural Calamities, such as, Drought, Flood, Hailstorm, Cyclone, Fire, Pest / Diseases etc. so as to restore their credit worthiness for the ensuing season. The scheme is currently implemented by Agriculture Insurance Company of India (AICL). The scheme is available to all the farmers loanee and non - loanee, irrespective of size of their holding. The scheme covers all Food crops (cereals, millets and pulses), Oil seeds and Annual horticultural / Commercial crops covered under NAIS are sugarcane, potato, cotton, ginger, onion, turmeric, chilly, jute, tapioca, annual banana, pineapple, jeera and garlic. All the Annual Horticultural / Commercial crops will be covered subject to the availability of the past yield data. For Kharif crops, the premium rates for Bajra and Oilseeds are 3.5% of sum insured or actuarial rates whichever is less, while for cereals and other millets and pulses, the premium rates are 2.5% of sum insured or actuarial rates whichever is less. For Rabi crops the premium rates for wheat is 1.5% of sum insured or actuarial rates whichever is less, while for cereals, and other millets and pulses, the premium rates are 2% of sum insured or actuarial rates whichever is less. 50% subsidy in premium is allowed in case of small and marginal farmers. The subsidy in the premium is to be phased out under the scheme on the sunset basis over a period of five years. At present 10% subsidy on premium is available to small & marginal farmers.

NAIS is presently being implemented in 23 States and 2 Union Territories. These are Andhra Pradesh, Assam, Bihar, Chattisgarh, Goa, Gujarat, Haryana, Himachal Pradesh, Jammu & Kashmir, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Meghalalaya, Orissa, Rajasthan, Sikkim, Tamil Nadu, Tripura, Uttar Pradesh, Uttaranchal, West Bengal, Andaman & Nicobar Islands and Pondicherry.

The performance under National Agricultural Insurance Scheme (NAIS) during 2004-05, is given in the following table:

(Rs in crores)

S. No	Particulars	Kharif 2004	Rabi 2004-05	Kharif 2005 **
1.	No. of Farmers Covered	12686814	3531045	11411106
2.	Sum Insured	13169.95	3773.89	12118.74
3.	Premium	458.92	75.85	409.72
4.	Claims Paid	666.82	77.49	0.00
5.	Claims Payable	93.43	79.33	11.80

** *Provisional*

3.31 **Audit Paras:** Audit Paras against Insurance Regulatory and Development Authority (IRDA), General Insurance Corporation of India (GIC) and four Public Sector General Insurance Companies pertaining to the year 2005 are given in the Annex.

4. BUDGET DIVISION

4.1.1 Budget Division is responsible for the preparation of and submission to Parliament, the Annual Budget (excluding Railways) as well as Supplementary and Excess Demands for Grants of the Central Government and of States and Union Territories with Legislatures under President's Rule. The Division is also responsible for dealing with all issues relating to Public Debt, market loans of the Central and State Governments, fixation of interest rates on Central Government's borrowing and lending, guarantees given by the Government of India and the Contingency Fund of India. The responsibility of the Division also extends to regulate the flow of expenditure by processing proposals from other Ministries/Departments for re-appropriation of savings in a Grant where prior approval of the Ministry of Finance is required. This Division also deals with National Savings Institute (NSI) and Small Savings Schemes, National Defence Fund and Burma and Sterling Pensions. The work relating to Treasurer Charitable Endowment is also handled in the Budget Division.

4.1.2 Matters relating to Duties, Powers and Conditions of Service of the Comptroller and Auditor General of India, submission of the Reports of the Comptroller and Auditor General of India relating to the accounts of the Union to the President for being laid before Parliament and (re)entrustment of audit of various bodies to the C&AG of India are also handled by this Division. During the calendar year 2005, 18 reports of the C&AG of India were laid before the Parliament.

4.1.3 The work of Finance Commission including setting up of the Commission and obtaining the orders of the Cabinet on the report of the Finance Commission is also dealt by the Division.

4.1.4 The Budget Division is also responsible for administration of 'Fiscal Responsibility and Budget Management Act, 2003' which was assented to by the President on August 26, 2003 and brought into force w.e.f. 5th July, 2004. The Rules made under the Act were also made effective from that date. Quarterly Review including Mid-term Review were presented in Parliament in accordance with the requirements of the FRBM Act.

4.1.5 Budget Division is also facilitating the implementation of 'Gender Budgeting' in other Ministries/Departments.

4.2 Public Debt and Cash Management

4.2.1 Public debt of the Central Government has witnessed continuous growth due to persistent recourse to deficit financing. However, over a period of time, the pattern of financing fiscal deficit has undergone a significant change and greater reliance has been placed on direct borrowings from the domestic market at market determined rates of interests.

4.2.2. The Central Government's normal borrowing through issue of dated securities for financing the fiscal deficit was budgeted at Rs.139467 crore (Gross) and Rs.103836 crore (net of repayment of Rs.35631 crore) during 2005-06. This estimate does not include issue of dated securities under Market Stabilisation Scheme. The actual issue of dated securities during the year (upto January 31, 2006) has amounted to Rs.115000 crore (Gross) and Rs.82370 crore (Net). During the year, Government continued with the policy of announcement of half yearly indicative market borrowing calendar based on its core borrowing requirements.

4.2.3 The weighted average cost of Central Government market borrowings through issue of dated securities has witnessed an increase from 5.74% in 2003-04 to 6.11% in 2004-05 and further to 7.29% during the current year, upto January 31, 2005 after witnessing a continuous decline from 11.86% in 1998-99. The weighted average maturity of dated securities issued during the year, upto January 31, 2006 works out to 15.61 years, as against 13.84 years during the corresponding period in previous year.

4.2.4 The limit of Ways & Means Advance (WMA) for the Central Government was retained at Rs.10000 crore for April, 2005 - September, 2005 period and Rs.6000 crore for October, 2005 - March, 2006 period. The rates of interest on WMA and Overdraft (OD) were maintained at 6.00% and 8.00% respectively, with unchanged Bank Rate at 6.00%. Notwithstanding the retention of the earlier WMA limits, Central Government did not require recourse to WMA barring on two occasions (May 3, 2005 and June 4, 2005) and was in fact placed in surplus position for most of the periods. The surplus cash position of the Central Government was mainly on account of investment of surplus cash balances of the State Governments in 14 days intermediate treasury bills.

4.2.5 Central Government, in consultation with RBI, has reintroduced 182 days treasury bills with fortnightly notified auction amount of Rs.500 crore from April 2005, besides continuing with auctions of treasury bills of 91 days and 364 days maturity. While the notified amount for weekly auction of 91 days Treasury Bills was retained at Rs.500 crore, the notified amount for fortnightly auction of 364 days Treasury Bills was retained at Rs.1000 crore.

4.2.6 To enable RBI to better manage liquidity situation in the economy arising largely on account of large foreign exchange inflows, RBI & GOI have signed a Memorandum of Understanding (MOU) regarding Market Stabilization Scheme, which basically entails GOI, on the advice of RBI, borrowing funds through dated securities and treasury bills and sequestering the same in a separate account. These funds are not to be used by GOI for any purpose other than for redemption of the instruments. The borrowings under the Scheme would impact the fiscal deficit to the extent of interest/discount liabilities on the borrowings. However, the principal amount itself would not affect the fiscal deficit, as funds raised are not going to be utilized by GOI. The Scheme came into effect from April 1, 2004. The initial ceiling of Rs.60000 crore of aggregate outstanding balance was increased to Rs.80000 crore after the balances crossed the threshold limit of Rs.50000 crore for review of the ceiling. For financial year 2005-06, ceiling and threshold limit were retained at Rs.80000 crore and Rs.70000 crore respectively. The total outstanding amount absorbed under MSS as on December 31, 2005 amounted to Rs.45139 crore, as against Rs.64211 crore as on April 1, 2005.

4.2.7 Gross market borrowings of State Government during the current fiscal year, upto January 18, 2006, was Rs.15702 crore, of which Rs.11186 crore (71.2%) was through tap issue and Rs.4516 crore (28.8%) was through auction route. The weighted average yield of State Government securities issued during the current fiscal upto January 18, 2006 works out to 7.61%, as compared to 6.38% during the corresponding period in 2004-05.

4.2.8 Government Securities Bill, 2004 was introduced in Lok Sabha during the winter session seeking to repeal the archaic Indian Securities Act, 1920 and replace the existing Public Debt Act, 1944. It incorporates features which are necessary in a modern and vibrant debt market and removes cumbersome and outdated procedures. The Standing Committee on Finance has examined the GS Bill, 2004 and made certain recommendations, which are under examination by the Government.

4.2.9 With the objective to improve the Cash Management System in the Central Government, a Sub-Group was constituted under the chairmanship of Chief General Manager-in-Charge of Internal Debt Management Department (IDMD) of RBI to examine the working of the Pilot Scheme on cash management system introduced earlier in nine Departments. The Government has, in principle, accepted the recommendations of the Sub-Group for phased implementation. Accordingly, a modified cash management system, including exchequer control based expenditure management system is being introduced in respect of fifteen demands for grants with effect from April 1, 2006.

4.2.10 In order to obtain greater evenness in expenditure and discourage parking of funds, guidelines have been issued to restrict the expenditure in the last quarter of the financial year to 33% of the budget estimate, not exceeding the revised estimates in cases where the same are lower than budget estimate, and to insist upon utilization certificate in respect of earlier releases.

4.3 NATIONAL SAVINGS:

4.3.1 Restriction of Small Savings to individuals only.

The Principal Acts under which small savings schemes of Government of India have been issued viz. the Government Savings Bank Act, 1873 and the Government Savings Certificate Act,1959 have been amended through the Finance Act,2005 so as to restrict investment in these schemes to individuals only. Consequently, the rules governing the small savings schemes including Public Provident fund (PPF) have also been amended and the amendments notified on 13.5.2005. As a result, effective from 13.5.2005 small savings schemes are available for investment by individuals only. The amendments do not affect the small savings accounts / deposits opened prior to 13th May 2005 in accordance with the rules then in force. These accounts shall continue till maturity as per rules. However, extension of such accounts beyond maturity shall be subject to the amendments dated 13th May 2005. In so far as Post Office Savings Bank accounts, which have no specified maturity are concerned, the scheme has been amended to provide that no deposits shall be accepted in non-individual accounts with effect from 27th July,2005 and that the outstanding balances in such accounts shall be refunded to the depositor by 31st December 2005. It has been further provided that deposits in such non-individual savings accounts if not withdrawn, shall not earn any interest beyond 31st December,2005

4.3.2 Amendment to Post Office Monthly Income Account (POMIA) Scheme,1987

With a view to rationalising the rates of penalty for premature closure of the 6 year Post office Monthly Income account (POMIA) Scheme, 1987 and aligning the effective yield on the deposits with other comparable savings instruments, the POMIA Rules, 1987 has been amended and notified on 10th February 2006. As a result, the penalty on premature closure of a POMIA account, which at present is 3.5% of deposit on closure between one to three years from the date of opening of account, stands reduced to 2% on premature closure between one to three years and 1% on premature closure after 3 years with effect from 10th February 2006. Simultaneously, the 10% of the deposit on maturity payable as bonus will not be available on deposits in new POMIA accounts opened with effect from 13th February 2006.

4.3.3 Small Savings Collections

The gross small savings collections (excluding collections under the Deposit Scheme for Retiring Employees) during 2005-06 (upto December, 2005) were Rs.1,48,183 crore as against the collection of Rs.1,25,722 crore during the same period last year. The net collections (gross collections minus repayments to depositors) during the same period were Rs.62,040 crore as against Rs.67,773 crores last year. The entire net collections are transferred to the State and Union Territory (with legislature) Governments as investment of the National Small Savings Fund in special securities issued by the State/U.T Governments. An amount of Rs.72,473 crore has been transferred as share of net small savings collections to the States and Union Territories (with legislature) upto 31st January ,2006 during the current fiscal year as against the sum of Rs.74,318 crore transferred during the corresponding period last year.

4.4 Hindi Branch

4.4.1 All Budget documents are presented to Parliament in Hindi and English. Besides Budget documents Hindi Branch has also prepared Hindi versions of Economic Classificatory and Status Report on External Debt, which were laid before the Parliament.

4.4.2 The translation of other documents as envisaged in the Official Language Act, 1963 and Rules made there under was also undertaken by the Hindi Branch during the year under report. These include agreements with Foreign Government and International Agencies, Cabinet Notes, Parliament question/ assurances, notifications, Standing Committee/Public Accounts Committee papers, monthly summary for the Cabinet, External Assistance Report, etc. During 2005-2006 Hindi Branch translated 12 agreements.

5. CAPITAL MARKETS, PENSION REFORMS AND EXTERNAL COMMERCIAL BORROWINGS DIVISION

5.1 Several major policy initiatives were taken during the year under review to improve the efficiency of the market and to protect the interests of investors in securities. These include the following:

(i) Corporatisation and Demutualisation of Stock Exchanges

The Securities and Exchange Board of India (SEBI), after following the due process and on being satisfied that it would be in the interests of the trade and also in public interest, has approved and notified the corporatisation and demutualisation schemes of 19 stock exchanges. It has also notified that two exchanges, namely, The OTC Exchange of India and National Stock Exchange of India Limited, are already corporatised and demutualised stock exchanges. This was to safeguard the interests of investors and bring about greater transparency and efficiency of the exchanges.

(ii) Comprehensive risk management

With a view to strengthening investor protection mechanisms, SEBI modified the guidelines pertaining to the model tripartite agreement between broker, sub-broker and client so as to include even subsidiaries of recognized stock exchanges. The changes were made applicable from June 1, 2005. Further, comprehensive risk management framework for stock exchanges was stipulated effective from 30th May 2005.

(iii) Securities Contracts (Regulation) Amendment Bill, 2005:

The Securities Contracts (Regulation) Amendment Bill, 2005 was introduced in the Lok Sabha on 16.12.2005 pursuant to the announcement in Budget 2005-06 regarding provision of a legal framework for trading of securitised debt including mortgage backed debt. The Bill stands referred to the Standing Committee on Finance.

(iv) Agreement signed for implementation of Integrated Market Surveillance System

In order to enhance the efficacy of the surveillance function, SEBI has signed an agreement with a consortium of countries for the implementation of a comprehensive Integrated Market Surveillance System (IMSS) for monitoring the market activities, across various stock exchanges and market segments (including both equities and derivatives), in India. The proposed IMSS solution is expected to be operational by March 2006.

(v) Tax benefits for Trading In `Derivative' Contracts:

The Central Board of Direct Taxes (CBDT) framed a new rule by which stock exchanges would be specifically recognized so that investors trading in 'derivative' contracts in these exchanges would enjoy the benefit to set off for tax purposes, profits and losses in 'options' and `futures' contracts in stocks, against gains and losses from other sources of income. The Ministry of Finance stated that a stock exchange making an application for recognition by CBDT in this regard must have the approval of SEBI for derivatives trading. The stock exchange would also have to maintain a complete audit trail of all transactions (in respect of cash and derivative markets) for 7 years on its system. The stock exchange additionally has to ensure that transactions once registered in the system cannot be erased or modified. Also, the particulars of the client (including unique client identity number and Permanent Account Number) must be duly recorded and stored in its database.

(vi) Amendments to the SEBI (Disclosure and Investor Protection) (DIP) Guidelines, 2000

SEBI amended its regulations on IPOs and listing guidelines to end discretionary allotment of IPOs to Qualified Institutional Bidders (QIBs) and made distribution of shares proportional to bids made. A 5% reservation was also introduced for domestic mutual funds in primary offerings (within the 50% QIB reservation) while also allowing them to bid separately under the QIB category in the balance 45%. All QIBs would, however, be required to pay 10% upfront margin for all institutional bids.

India became the first country to do away with discretionary allotment for QIBs and introduce proportional allotment. This measure makes the allotment transparent, removes abuses in discretionary allotment and helps in removing the hype created in book built issues to attract retail investors.

(vii) Negotiated Dealing System -Electronic Order Matching (NDS-OM) Launched

On August 1, 2005, RBI launched the electronic order matching system for trading in government securities on its Negotiated Trading System. The electronic order matching system (NDS-OM) will co-exist with the telephone-based trading system as well as the exchange-based trading mechanism.

(viii) Revision in Policy of GDRs/FCCBs

On 31st August, 2005, the Ministry of Finance issued a press note revising the ADR/GDR guidelines to bring these in consonance with SEBI guidelines especially with reference to eligibility of issuer, in order to eliminate the regulatory arbitrage between the two markets and to strengthen corporate governance. It was mandated that such companies would require prior or simultaneous listing in India. Companies, which have already issued ADRs /GDRs and FCCBs must get listed in India in 2005-06 if they are profit making. It was also mentioned that listed companies barred from accessing domestic capital would not be allowed to raise funds abroad. The pricing of overseas issues was also to be aligned with the norms specified by SEBI. Further amendments were made in September and November 2005.

(ix) Investment in ADRs/GDRs/Foreign Securities by Mutual Funds

SEBI has made amendment pertaining to investment by mutual funds investing in ADRs, GDRs and other foreign securities. It has now been decided that in mutual fund schemes, where disclosure pertaining to investment in ADRs/GDRs/foreign securities has not been made in the offer document, then in such cases prior to investment in ADRs/GDRs /foreign securities for the first time, the AMC shall ensure that a written communication is sent to unit holders, which shall also disclose the risk factors associated with such investments. However, this provision will not be applicable to the existing mutual fund schemes where relevant disclosure regarding investing in ADRs/GDRs/foreign securities has already been made.

(x) Mutual Funds allowed to participate in Exchange Traded Derivative Contracts

Following the recommendations of the Secondary Market Advisory Committee, SEBI decided to permit mutual funds to participate in the derivatives market at par with Foreign Institutional Investors (FIIs). Accordingly, mutual funds will be treated at par with a registered FII in respect of position limits in index futures, index options, stock options and stock futures contracts. The participation by the domestic mutual funds, which is gradually increasing from a nil position, will seek to balance the trading by FIIs.

(xi) Discontinuation of Hand Delivery Bargains/Delivery Versus Payment (DVP)

SEBI has issued a circular to protect the interests of investors in securities and to promote the development of, and to regulate the securities market, in consultation with stock exchanges, custodians and other market participants that all transactions executed on the stock exchanges will, henceforth, be settled through the Clearing Corporation/House of the stock exchanges with effect from September 19, 2005. This step forces the custodians to settle all FII trades (instead of selectively) through the clearing corporation than bilaterally with the broker. This is in compliance with global standards of clearing and settlement. It also reduces transaction costs for FIIs.

(xii) Review of Dematerialization Charges

Pursuant to the representations from the investor community and in order to encourage more investors to hold securities in demat mode, SEBI has made entry into the demat environment free except from applicable statutory charges and rationalized the tariff structure with regard to account opening charges, custody charges and transaction charges towards the credit of securities. The depositories/DPs were advised to put in place necessary systems and procedures to differentiate between an account closure transaction and a normal debit transaction on or before January 08, 2006 so as to avoid any problems in the live environment and ensure smooth implementation of the decision.

(xiii) MAPIN Database

A SEBI committee set up to re-examine issues relating to the market participants and investor database (MAPIN) suggested a new software to assign a unique ID to each participant based on non- biometric using disclosures only for all market participants who are yet to obtain Unique Identification Numbers. The committee felt that the earlier method was costly and lacked the reach. SEBI has initiated action to examine the recommendations of the committee and some other suggestions that have been made to SEBI and to arrive at a solution that ensures unique investor identity while minimizing hardship to the small investors.

The SEBI Board in its meeting held on 30 December, 2005 decided to resume fresh registrations for obtaining Unique Identification Number (UIN) under SEBI (Central Database of Market Participants) Regulations, 2003 (MAPIN), after considering the recommendations of the Committee set up by SEBI to examine the issues related to MAPIN.

The registration process will be resumed in a phased manner. To begin with, the cut off limit for obtaining UIN with biometric impressions for natural persons has been raised from the existing limit of trade order value of Rs.1.00 lakh to Rs.5.00 lakh or more. The limit will be reduced progressively. Agencies capable of providing such facilities in a cost effective manner will be assigned the responsibility of maintaining the databases. For trade order value of less than Rs.5.00 lakh, option will be available to investors to obtain either the Permanent Account Number of Income Tax Department or UIN obtained under MAPIN. Investors in mutual funds would be exempted from the requirement of obtaining UIN. The definition of promoter, which is a body corporate, would be limited, to immediate holding company of the Indian entity and any of the subsidiaries, if located in India. Listed company or a company which intends to get its securities listed, along with their promoters, directors, officers and designated employees would be required to obtain UIN. These changes will be implemented after the necessary amendments are made to the MAPIN Regulations.

(xiv) Block Deals

SEBI has defined block deals as a minimum trade for either 5 lakh shares or of value Rs. 5 crore and set up a separate window for trading in these block deals between 9:55 a.m. and 10.30 a.m. every day on the stock exchanges. This measure recognizes the need of the market for executing block deals while bringing transparency in such transactions and checking possible market abuse.

(xv) Committee on Liberalization of FII Investment

The National Common Minimum Programme (NCMP) lays down that FIIs will continue to be encouraged while the vulnerability of the financial system to the flow of speculative capital will be reduced. While reviewing the implementation of NCMP, the Government decided that an Expert Group should be set up to look into these issues and provide an Action Plan for time-bound implementation Accordingly, a Group was constituted under the chairmanship of Dr. Ashok Lahiri, Chief Economic Adviser. The report was submitted on 22nd November, 2005 and placed on the website of the Ministry of Finance for public comments.

(xvi) Alternative platform for small and medium enterprises

In pursuance to the announcement in the Budget 2004-05 regarding creation of an alternative platform for small and medium enterprises to raise equity and debt from the capital market, legislative amendments have been carried out through the Securities Laws (Amendment) Act, 2004 (No.1 of 2005) and the alternative trading platform called INDONEXT has been launched in Stock Exchange, Mumbai (BSE) on January 7, 2005.

(xvii) Primary Market

The Disclosures and Investor Protection (DIP) Guidelines were amended by SEBI to increase allocation of shares to retail individual investors from 25% to 35% of the total issue in case of book built issues. Further, allocation of 5% of shares was earmarked for mutual funds within the category of qualified institutional buyers. This would increase retail participation in the market. The retail individual investor was redefined as one who applies for bids for securities of or for a value not exceeding Rs. 1 lakh as against the earlier limit of Rs. 50,000.

(xviii) External Commercial Borrowing

RBI opened a window to enable qualified NGOs engaged in micro finance activities and having satisfactory borrowing relationship for at least 3 years with a scheduled commercial bank authorized to deal in foreign exchange to raise ECB up to USD 5 million during a financial year for permitted end-use under the Automatic Route. Subsequently, non-banking financial companies were permitted to access ECB with minimum average maturity of 5 years from multilateral financial institutions, reputable regional financial institutions, official export credit agencies and international banks to finance import of infrastructure equipment for leasing to infrastructure projects. Housing finance companies satisfying certain criteria notified by RBI were also allowed to raise Foreign Currency Convertible Bonds. It has now been decided to amend the policy to permit the Multi State Co-operative Societies engaged in manufacturing activities in real sector with financial solvency and up to date audited balance sheet to access ECB under the Approval Route.

(xix) PENSION REFORMS

The New Pension System (NPS) was introduced for newly recruited Central Government employees with effect from 1st January 2004. It was announced in the Budget 2004-2005 that suitable legislation to provide a regulatory framework for the scheme would be introduced in Parliament. In line with the announcement, the Pension Fund Regulatory and Development Authority (PFRDA) Ordinance, 2004 was promulgated on 29th December 2004. A Bill replacing the Ordinance was introduced in Parliament on 21st March 2005. The Bill was referred to the Standing Committee on Finance who subsequently gave their report.

(xx) Investment Guidelines for Non-government Provident Funds, Superannuation Funds and Gratuity Funds

The investment guidelines for non-government provident/ superannuation and gratuity funds were amended in January, 2005. Important amendments includes permission to use upto 10% of the total portfolio at the end of the preceding financial year for active management; investment in Collateral Borrowings and Lending Obligation (CBLO) issued by Clearing Corporation of India Limited and approved by RBI; permission to invest upto 5% of the total portfolio in shares of companies that have an investment grade debt rating from at least two credit rating agencies; and upto 10% in private sector debt instruments which have an investment grade rating from at least two credit rating agencies and/or in equity-linked schemes of mutual funds regulated by the Securities and Exchange Board of India.

(xxi) International Ratings

During the year, Fitch's affirmed their foreign currency rating of India of BB+ with a stable outlook and Japan Credit Rating Agency affirmed their rating of BBB with a stable outlook. Standard and Poor's reaffirmed their rating of BB+ with stable outlook on both domestic and foreign currency.

(xxii) UTI

Pursuant to the repeal of UTI Act, UTI was bifurcated and the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002 was enacted by the Parliament in December 2002. The Repeal Act, inter-alia, provided that erstwhile Unit Trust of India would be bifurcated, and the "specified undertaking", viz, UTI-I, comprising of US-64, Assured Return Schemes and Development Reserve Fund will be transferred and vest in a government appointed Administrator, and the 'undertaking", viz. UTI-II, comprising of NAV based schemes will vest in a specified company from an Appointed Day, which is 1st February, 2003.

SBI, PNB, BOB and LIC were selected as sponsors for UTI-II and Govt. of India had signed an agreement on 15.1.03 with the sponsors for transfer of NAV based schemes to UTI-II. As per the agreement, a sale consideration of RS.1,236.95 crore was finalized and was paid by the sponsors during the year.

5.2 Functions/working of Division including its various Advisory Boards and Councils

5.2.1 The Capital Market and External Commercial Borrowings and Pension Reforms Division is primarily responsible for formulating policy measures to ensure the development and regulation of the securities markets and the functioning of Securities and Exchange Board of India (SEBI). The Division is also responsible for initiating and coordinating pension reforms and implementation of Right to Information Act within the Department. The Division has eight branches viz. the Capital Market Section, the

Stock Exchange Section, the External Commercial Borrowings (ECB) and Pension Reforms (PR) Division, the Exchange Management Section (EM), Unit Trust of India and Joint Parliamentary Committee Section (UTI & JPC), Right to Information Cell (RTI) and Vigilance Branch.

5.2.2 Functions of the Capital Market and Stock Exchange sections

The principal subjects dealt with in the Capital Market Division are the following:

- Policy matters relating to the primary and secondary securities markets;
- Policy matters relating to the regulation and development of the securities markets and investor protection;
- Policy matters relating to domestic mutual funds;
- Organizational and operational matters relating to SEBI. The Acts/Rules being administered by Capital Market and Stock Exchange sections are:-
- Securities and Exchange Board of India Act, 1992 and Rules made thereunder;
- Securities Contracts (Regulation) Act, 1956 and rules made thereunder;
- Depositories Act, 1996 and Rules made thereunder;
- Clause (f) of Section 20 of the Indian Trusts Act, 1882.

The Capital Market Division has been entrusted primarily with the responsibility of assisting the Government in framing suitable policies for the development of the capital market in consultation, inter-alia, with SEBI, RBI and other agencies. It acts as the Secretariat for the High Level Coordination Committee on Financial and Capital Markets and deals with all organizational/operational matters relating to SEBI including appointment of the Chairman and members of the SEBI Board. Under the SEBI Act, 1992, the Ministry of Finance is represented on the SEBI Board. The Capital Markets Division provides inputs to the Ministry's representative on items placed before the Board. The Ministry of Finance is also represented on the Primary and Secondary Market Advisory Committees of SEBI. Inputs regarding policy issues related to the capital market are provided through these channels.

5.2.3 High Level Coordination Committee on Financial and Capital Markets (HLCCFCM)

HLCCFCM is the forum to deal with inter-regulatory issues arising in the financial and capital markets as India follows a multi-regulatory regime for financial sector. The Capital Market Division functions as the Secretariat of this Committee. Joint Secretary (CM, ECB & PR) is also the convener of the HLCCFCM to examine capital market policy issues as required, put together the agenda for HLCCFCM meetings and follow up on its decisions.

5.2.4 Function of Exchange Management Section:

The functions of Exchange Management Section are mainly to administer the Foreign Exchange Management Act, 1999 (came in to force from 1st June 2000) and policy matters relating to foreign Travel, studies abroad, business visits, medical treatment, acquisition of immovable properties in India by foreign nationals, employment of foreign nationals in India and opening of offices by Indian entities abroad and release of foreign exchange for advertisement abroad in foreign print media by State/UT governments and their undertakings abroad etc. The Section also deals with the visits abroad by CMs/ Minister/MLAs/officials of State/ UT Governments in terms of guidelines laid down by the Cabinet Secretariat regarding travel of Ministers/Officials of State/UT Governments. Matters relating to combating the financing of terror are also handled and dealt with in the section in consultation with Ministry of External Affairs, Ministry of Home Affairs, Department of Revenue and Reserve Bank of India.

5.2.5 Functions of the ECB & Pension Reforms Division

The major functions of the ECB and Pension Reforms Division (ECB & PR) are as under:-

- Periodic review and formulation of ECB Policy and Procedures;
- Policy matters relating to risk and liability management and development of exchange and OTC derivatives products for interest rate / foreign currency and commodity price risk management;
- Scrutiny of loan agreements for granting withholding tax exemption wherever applicable and policy matters relating thereto;
- External sovereign debt restructuring and reduction of cost of debt service;
- Sovereign debt issues and credit rating dialogue with International Credit Rating Agencies;
- Assisting in short / long term BOP projections and management;
- Keeping track of developments in International Capital Markets;

The Pension Reforms Section of the ECB & PR Division is responsible for initiating and coordinating pension reforms; formulating policy in regard to investment of fund moneys by non-government provident, superannuation and gratuity funds; and policy matters related to the Special Deposit Scheme. The Section also processes matters related to the Employees' Provident Fund Organization (EPFO) and agenda items for meetings of the Central Board of Trustees of EPFO, of which Joint Secretary (Capital Markets) is a member. The Division processes all administrative matters in respect of the interim Pension Fund Regulatory and Development Authority (PFRDA), which was created, vide Resolution No. 5/7/2003-ECB & PR dated 10th October 2003 and began functioning from 1st January 2004. Till the institutional architecture of the NPS is fully in place, the Central Pension Accounting Office (CPAO) under the Controller General of Accounts is acting as the interim Central Record keeping Agency (CRA) for the NPS. The interim arrangements are reviewed periodically by the Ministry of Finance. These review meetings are organized by the Pension Reforms Section.

5.2.6 Functions of the UTI & JPC Section

The major functions of UTI & JPC sections are as under:-

* Preparation and submission of progress report to Parliament on the recommendations of the Joint Parliamentary Committee on Stock Market Scam, 2001.
* All organizational/operational matters relating to erstwhile Unit Trust of India under the Unit Trust of India (Transfer of Undertaking & Repeal) Act, 2002.

5.2.7 Functions of Vigilance Branch

Joint Secretary (CM) is the Chief Vigilance Officer for the Department of Economic Affairs. In this capacity, he is assisted by the Vigilance Branch.

5.2.8 Functions of RTI Cell

RTI Cell looks after the Right to Information Act, 2005 and provides accessing facility of the information of the Department of Economic Affairs by the public.

5.3 Information about the performance/achievements upto the last year

5.3.1 In the recent years some important steps have been initiated to further develop the capital market. These are as follows:

(i) Corporatisation and Demutualisation of Stock Exchanges

The Joint Parliamentary Committee (JPC) on Stock Market Scam had emphasized the urgent need to implement corporatisation and demutualisation of stock exchanges to safeguard the interest of investors and bring about greater transparency and efficiency of the exchanges. The Government in its Action Taken Report had promised to propose necessary legislative changes to implement this policy reform. Accordingly, the Securities Laws (Amendment) Ordinance, 2004 was promulgated on October 12, 2004 to inter-alia give effect to corporatisation and demutualisation of stock exchanges. The Securities Laws (Amendment) Bill 2004, which sought to replace the Ordinance was passed by both the Houses of Parliament and became Act No.1 of 2005.

(ii) FII Investment:

Foreign Institutional Investors (FIIs) have shown a marked preference for India over other emerging markets. In order to carry forward the process of making Indian capital market strong and attractive, the following steps were taken:

* Procedures for registration and operations were made simpler and quicker for FIIs.

* Investment ceiling for FIIs in Government debt was raised from US$ 1billion to US $ 1.75 billion. A separate sub-ceiling of USD 500 million was provided for investment in corporate debt.

(iii) SEBI (Interest Liability Regularization) Scheme, 2004

SEBI had launched the SEBI (Interest Liability Regularization) Scheme, 2004 in July, 2004 so as to finally settle the contentious issues of payment of turnover based fees by allowing waiving of outstanding cumulative interest if the principal as well as the 20% of the interest is paid during the regularization period.

(iv) Securities Transaction Tax (STT)

A new tax viz. Securities Transaction Tax (STT) was introduced in Budget 2004-05. The imposition of STT was part of the strategy to rationalize the tax structure for capital markets.

(v) Straight Through Processing

India is one of the few countries to have started the Straight Through Processing (STP), which will completely automate the process of order flow and clearing and settlement on the stock exchanges.

(vi) Real Time Gross Settlement system

RBI has introduced the Real Time Gross Settlement system (RTGS) in 2004 on experimental basis. RTGS will allow real delivery vs. payment, which is the international norm recognized by BIS and IOSCO.

(vii) T + 2 Rolling Settlement

Stock exchanges were directed to follow compulsorily T+2 rolling settlement for all listed securities with effect from April 1, 2003. The entire Indian capital market complied with the directive in a smooth and friction-free manner. This measure will facilitate reduction of settlement risk in the market.

(viii) Accounting Standards: Amendment to Clause 41 of the Listing Agreement

Accounting standards and disclosure practices of the Indian companies have been improvised in line with the best international practices. Additional accounting norms to be followed by Indian companies shall be in the form of following additional disclosures:

* Investment in associates and subsidiaries:

* Introduction of half yearly audited consolidated results .

* Quarterly audit review.

* Introduction of business risk report in the annual report.

* Mandatory disclosure of audit qualification, their impact on the profit and loss together with explanations and the date by which these are expected to be removed and others.

(ix) Central Listing Authority

SEBI (Central Listing Authority) Regulations were issued in 2003. The Regulations provide for the constitution of a Central Listing Authority (CLA) by SEBI, mandatory recommendation from CLA before listing in any stock exchange and appeal to SEBI and Securities Appellate Tribunal (SAT) in case of refusal of issuance of letter of recommendation from CLA. The CLA was constituted on April 09, 2003.

(x) Launch of Interest Rate Derivatives on stock exchanges

With a view to realizing the advantages of an exchange - traded mechanism, trading in interest rate derivatives on stock exchanges was launched on 24th June, 2003 by the Finance Minister. As a first step towards formalizing the trading in interest rate derivatives on the exchanges, the following products were launched (i) futures on 10 year zero yield coupon bond (ii) futures on zero-coupon notional T-Bill, to start with. This policy reform would provide risk management instruments to the market participants.

(xi) Amendments to the Securities Contracts (Regulation) Rules, 1957

In order to allow banks to participate in trading of Government securities and interest rate derivatives on stock exchanges, necessary amendments to the Securities Contracts (Regulation) Rules, 1957 to allow banks to have direct access to stock exchanges have been carried out vide GOI Gazette notification dated 28th August, 2003. Further, vide the same notification, amendments have been made to allow securities' brokers to participate in the commodity derivatives market only through a separate legal entity, with separate capital adequacy, net worth etc as indicated by the Forward Market Commission from time to time.

(xii) Amendments in the Securities and Exchange Board of India Act, 1992

The Securities and Exchange Board of India (SEBI) Act, 1992 was amended to strengthen the mechanisms of investigation and enforcement by SEBI, institutional strengthening of SEBI, equipping SEBI with powers to search premises and seize documents of any intermediary or person associated with the securities market defaulters; pass an order requiring any person who has violated or is likely to violate, any provision of the SEBI Act or any rules or regulations made thereunder to cease and desist for committing and causing such violation etc. Further, the penalties specified in the SEBI Act for violation of the SEBI Act or rules or regulations, have been substantially increased and the Appellate Authority made a three member body instead of being a single member authority.

(xiii) Operationalising trading of government securities, through order driven screen-based system

With a view to encouraging wider participation of all classes of investors, including retail, across the country in government securities, trading in government securities through a nation wide, anonymous, order driven, screen based trading system of the stock exchanges, in the same manner in which trading takes place in equities, was launched on 16th January, 2003.

(xiv) Derivatives Trading

Derivatives trading commenced in the Indian equity markets with trading in stock index futures from 9th June, 2000. Stock index options and stock options were introduced in June and July, 2001 respectively. Single stock futures have also been introduced since 9th of November, 2001. Interest rate derivatives were introduced in June, 2003.

(xv) EDIFAR

The Electronic Data and Information Filling & Retrieval (EDIFAR) system was launched by SEBI on 5th July 2002 to facilitate electronic filing of information by listed companies, including financial statements, corporate governance reports, shareholding pattern statement, action taken against the company by any regulatory agency etc.

(xvi) Dual fungibilty of ADR/GDR

Dual fungibilty of ADR/GDR was made operational after the issuance of the necessary guidelines by SEBI. This has made two way float possible and has reduced regulatory arbitrage to almost negligible levels and thus improved the efficiency of Indian market.

(xvii) On-line Connectivity between the two depositories

Inter-depository transfer through on-line connectivity was established between CDSL and NSDL. This is expected to augment the trade settlement process and act as a precursor to Straight Through Processing.

(xviii) Delisting Committee

A SEBI committee on delisting of securities, while recognizing that there should be no prohibition per se against delisting of securities, recommended framing of comprehensive provisions to deal with delisting, adoption of reverse book building process to arrive at the exit price for delisting, empowering stock exchanges to delist companies for non compliance with listing agreement and setting up of Central Listing Authority. The recommendations are expected to make the delisting process transparent, efficient and investor friendly. The necessary regulatory framework was put in place of SEBI guidelines were issued in 2003.

(xix) MoU with Foreign Regulators

SEBI signed a Memorandum of Understanding with the Financial Services Commission, Mauritius and with the Sri Lankan Authority on information sharing and mutual co-operation.

(xx) Debt Market Developments

A debt clearing corporation, the Clearing Corporation of India Ltd. (CCIL) under the Companies Act, 1956 was established on 30th April 2001 and it has commenced operations in clearing and settlement of transactions in Government securities (including repos) with effect from 15th February, 2002. An electronic Negotiated Dealing System (NDS) (phase I) has been operationalised effective from 15th February, 02.

(xxi) External Commercial Borrowing

The Government in consultation with RBI periodically reviews the ECB policy in order to enable Indian corporates to have greater access international capital market while keeping the prudent debt management objective in view. With a view to replace certain temporary measures relating to ECB announced on November 14, 2003 with more transparent and simplified policy a review was undertaken in January, 2004 and the revised policy was notified by RBI on 31st January 2004. The highlight of the review was increasing the access of the corporate sector by permitting ECBs upto USD 500 million on the automatic route without any approval. The all-in-cost ceiling was prescribed with relation to the minimum average maturity period.

The same liberalization made for ECB was extended to the Foreign Currency Convertible Bonds (FCCBs) with regard to spreads, procedures etc.

5.3.2 PENSION REFORMS SECTION

On 23rd August 2003, Government decided to introduce a new restructured defined contribution pension system for new entrants to Central Government service, except to Armed Forces, in the first stage, replacing the existing defined benefit system. Subsequently, the NPS was operationalised from 1st January 2004 through a notification dated 22nd December 2003. The main features of the NPS are as follows:

* It is based on defined contribution. New entrants to Central Government service contribute 10 per cent of their salary and dearness allowance (DA), which is matched by the Central Government.

* Once the NPS architecture is fully in place, employees will have the option of a voluntary tier-II withdrawable account in the absence of the facility of General Provident Fund (GPF). Government will make no contribution to this account.

* Employees will normally exit tier-I of the system at or after the age of 60 years. At the time of exit, it is mandatory for them to invest 40 per cent of the pension wealth to purchase an annuity to provide for lifetime pension of the employee and his dependent parents and spouse. Remaining 60 per cent of pension wealth will be paid to the employee in lump sum at the time of exit.

* The new system will have a central record keeping and accounting infrastructure and several fund managers to offer investment options.

An interim PFRDA was constituted through a Government resolution dated 10th October 2003 as a precursor to a statutory regulator and became operational from January 1st 2004. A Chairperson and two whole-time members were appointed who, however, subsequently resigned. Shri D. Swarup has been appointed as Chairman PFRDA for a term of 5 years or until the age of 65 or until further orders, whichever is earlier. He assumed charge on 1st April, 2005.

Till the architecture is fully in place, the Central Pension Accounting Office (CPAO) under the Controller General of Accounts is acting as the interim Central Record keeping Agency (CRA). Contributions are currently being credited into the public account earning a return equal to the GPF rate.

The World Bank has provided a grant for pension reform work from the India Development Fund. Under this grant, the Invest India Economic Foundation (IIEF) was engaged by DEA to provide consultancy and to assist with the pension reform work. They prepared concept papers on pension funds and Central Record keeping Agency (CRA) which were put on their website for public comments.

5.3.3 Revival of UTI

Background:

* The UTI had broadly three types of schemes, viz., normal Net Asset Value (NAV) based schemes, Unit Scheme -

64 (US-64) and Assured Return Schemes (ARSs), generally known as Monthly Income Plans (MIPs).

* US-64 was the first scheme launched by UTI. The sale and repurchase prices of US-64 were not based on the value of the underlying assets. Instead an administered price was fixed and dividends were announced at very high rates not commensurable with the actual earning of the scheme. This necessitated dipping into the reserves.

* UTI had floated several Monthly Income Plans (assured return schemes) from time to time. These are basically classified under two categories : schemes where either both dividend and capital were guaranteed for their full term and or which provide capital guarantee at maturity with yearly dividend reset option.

Repeal of UTI Act

* Pursuant to the repeal of UTI Act, UTI was bifurcated and the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002 was enacted by the Parliament in December 2002.

* The Repeal Act, inter-alia, provided that the erstwhile Unit Trust of India would be bifurcated, and the "specified undertaking", viz, UTI-I, comprising of US-64, Assured Return Schemes and Development Reserve Fund will be transferred and vest in a government appointed Administrator, and the “undertaking", viz. UTI-II, comprising of NAV based schemes will vest in a 'specified company' from an Appointed Day, which is 1st February, 2003.

* The restructuring of the erstwhile UTI was undertaken with the objective to ring-fence the liability of the Government of India through the redemption and foreclosures of different Assured Returns Schemes (ARSs) of the erstwhile UTI and to ensure that the investors receive their rightful claims without this process having any adverse impact on the Indian capital market.

* The Government signed an agreement on 15th January 2003 with The State Bank of India, Punjab National bank, Bank of Baroda and the Life Insurance Corporation of India for transfer of undertaking viz. UTI-II effective from 1st February, 03.

Developments in UTI-I:
US-64

* On 31st May, 2003, US-64 has come to an end. Investors of US-64 were given an option of Government guaranteed five years tax-free bonds with a coupon of 6.75% p.a. payable semi-annually. US-64, which had been drawing public attention for over 5 years have now been addressed in a manner that investors have received their claims without any adverse impact on the capital market.

Foreclosure of Assured Return Scheme (ARS):

* All the ARSs, except for 1 have been closed/foreclosed by paying the investors in cash or through issuance of Bonds issued by Specified Undertaking of UTI (SUUTI) and guaranteed by GOI. Presently, only 1 ARS remains on the books of SUUTI which is due to mature on 30.6.2006.

Special Unit Scheme-99 (SUS'99) :

* On the recommendations of the Deepak Parekh Committee, a Special Unit Scheme (SUS-99) was created in June 1999 by transferring to the scheme the PSU portfolio of US 64 which had a market value of Rs.1,517 crores on 29th June, 1999 at its book value of Rs.3,300 crores. The Central Government subscribed to the scheme fully by the issue of 5 year Government securities amounting to Rs.3,300 crores which carried an interest of 11.24% per annum payable half yearly.

* Government has so far repurchased all the units of SUS-99 and the cumulative redemption value of the share purchase, including the accrued interest is Rs. 6287.56 crores. In addition, an amount of Rs.165 crore has been retained for Voluntary Separation Scheme.

On maturity (24.06.2004), the Government decided to redeem Rs. 3300 crore worth of Special Securities Bond which were issued to fully subscribe to the SUS'99 scheme, by way of direct payment to the holders.

5.4. Information about the performance/achievements during the year under review

5.4.1 Stock Exchange Section

(i) Corporatisation and Demutualisation of Stock Exchanges

The Securities and Exchange Board of India (SEBI), after following the due process and on being satisfied that it would be in the interest of the trade and also in the public interest, has approved and notified the Corporatisation and Demutualisation Schemes of 19 Stock Exchanges. It has also notified that two exchanges, namely, the OTC Exchange of India and National Stock Exchange of India Limited, are already corporatised and demutualised Stock Exchanges. This is a major step for modernization of securities markets. It makes all stock exchanges for profit entities, removes conflicts of interest by segregating ownership, trading rights and management. India is the only country which achieved this corporatisation and demutualisation in the shortest possible time.

The broad features of these schemes are:

a. The Stock Exchanges that are association of persons shall be converted into a for-profit company limited by shares. The Exchanges that are companies limited by guarantee shall be re-registered as companies limited by shares.

b. The ownership and management rights and trading rights associated with membership cards shall be segregated. It shall not be necessary for a shareholder to be a trading member and vice versa.

c. The membership cardholders shall become initial shareholders of the Exchange which shall ensure that at least 51% of its equity shares are held by public other than shareholders having trading rights within 12 months.

d. No shareholder, who is a trading member, shall have voting rights (taken together with voting rights held by him and by persons acting in concert with him) exceeding specified percentage of the voting rights in the Exchange.

e. The membership card holders shall be trading members of the Exchange initially.

f. There will be only one class of trading members with similar rights and privileges and uniform standards shall be followed in terms of capital adequacy, deposits, fees, etc while admitting any person as a trading member or accepting his surrender.

g. The Governing Board of the Exchanges shall be so constituted that the representatives of the trading members do not exceed one-fourth of its total strength.

h. The trading members shall clear and settle trades till the clearing and settlement functions are transferred to a recognized clearing corporation which shall happen within two years.

i. The Exchanges shall ensure that the assets and reserves are utilised only for the operations of stock exchange.

(ii) Comprehensive risk management

In another move, SEBI extended the date for implementation of the comprehensive risk management framework for stock exchanges to May 30, 2005. The earlier date was May 18, 2005. Accordingly, no stock exchange would be permitted to trade unless the exchange was in a position to implement the revised risk management framework from May 30, 2005. The regulator also modified the guidelines pertaining to the model tripartite agreement between broker, sub-broker and client so as to include even subsidiaries of recognised stock exchanges. Earlier these subsidiaries that were mainly registered as brokers of the BSE or NSE whose members in turn became sub-brokers of the BSE or NSE were exempted from the execution of the tripartite agreement. The changes would be applicable from June 1, 2005.

(iii) Agreement signed for implementation of Integrated Market Surveillance System

In order to enhance the efficacy of the surveillance function, SEBI), has signed an agreement with a consortium of countries for the implementation of a comprehensive Integrated Market Surveillance System (IMSS) for monitoring the market activities, across various stock exchanges and market segments (including both equities and derivatives), in India. The System envisages integration of data available from Stock Exchanges (cash and derivatives segments), Clearing Corporation and Depositories into a single Integrated Market Surveillance System. The IMSS is expected to generate alerts that will help SEBI to identify and detect serious market violations such as market manipulations, insider trading and other types of frauds that undermine market integrity. The proposed IMSS solution is expected to be operational by March 2006.

(iv) Tax benefits for Trading In `Derivative' Contracts

The Central Board of Direct Taxes (CBDT) framed a new rule by which stock exchanges would be specifically recognised so that investors trading in `derivative' contracts in these exchanges would enjoy the benefit to set off for tax purposes, profits and losses in `options' and `futures' contracts in stocks, against gains and losses from other sources of income. The Finance Ministry stated that a stock exchange making an application for recognition by CBDT in this regard must have the approval of SEBI for derivatives trading. The stock exchange would also have to maintain a complete audit trail of all transactions (in respect of cash and derivative market) for 7 years on its system. The stock exchange additionally has to ensure that transactions once registered in the system cannot be erased or modified. Also, the particulars of the client (including unique client identity number and Permanent Account Number) must be duly recorded and stored in its database.

(v) Amendments to the SEBI (Disclosure and Investor Protection) (DIP) Guidelines, 2000

SEBI amended its regulations on IPOs and listing guidelines to end discretionary allotment of IPOs to Qualified Institutional Bidders (QIBs) and made distribution of shares proportional to bids made. A 5% reservation was also introduced for domestic mutual funds in primary offerings (within the 50% QIB reservation) while also allowing them to bid separately under the QIB category in the balance 45%. All QIBs would, however, be required to pay 10% up front margin for all institutional bids.

The highlights of the amendments are:

a) Specific allocation of 5 per cent for mutual funds within the category of qualified institutional buyers (QIBs);

b) Eligible bids by mutual funds to be considered in the said 5 per cent and also in the balance available for allocation to QIB category;

c) Margin of 10 per cent to be collected from QIBs; and

d) Allocation to QIBs to be made on proportionate basis as is presently being done in case of retail individual investors and non institutional investors.

(vi) Negotiated Dealing System -Electronic Order Matching (NDS-OM) Launched

On August 1, 2005, RBI launched the electronic order matching system for trading in government securities on its Negotiated Trading System. The electronic order matching system (NDS-OM) will co-exist with the telephone-based trading system as well as the exchange-based trading mechanism. The use of the new trading module is voluntary. The system will be purely order-driven, with all orders being matched based on strict price/time priority. With an anonymous order matching system, the identity of parties will also not be revealed before or at the time of trade. The Clearing Corporation of India would be the central counter party to each trade done on the system. Under a straight-through processing system, trades executed will flow straight to CCIL in a ready-for-settlement stage. During the first phase, the NDS-OM will serve the trading requirements of all banks, primary dealers and financial institutions regulated by RBI that hold current NDS membership. Other NDS members will be extended access in the next phase. The option of extending NDS-OM to non-NDS members will be implemented though the three-phase approach as approved by the Government.

(vii) Revision in Policy of GDRs/FCCBs

On 31st August, 2005, the Finance Ministry issued a press note revising the ADR/GDR guidelines to bring these in consonance with SEBI guidelines especially with reference to eligibility of issuer or sub-broker, in order to eliminate the regulatory arbitrage between the two markets and to strengthen corporate governance. It was mandated that such companies would require prior or simultaneous listing in India. Companies, which have already issued ADRs / GDRs and FCCBs must get listed in India in 2005-06 if they are profit making. It was also mentioned that listed companies barred from accessing domestic capital would not be allowed to raise funds abroad. The pricing of overseas issues was also to be aligned with the norms specified by SEBI. Further amendments were made in September and November 2005.

In order to remove hardship, due to the amendment of 31st August, 2005, to Indian companies that have taken verifiable "effective steps," before 31st August, 2005 and incurred costs for overseas issues, the Government made further amendments on 14th September, 2005. Subsequently, it was further decided that the companies going in for an offering in the domestic market and a simultaneous or immediate follow on offering (within 30 days of domestic issue) through ADR/GDR issues wherein GDRs/ADRs are priced at or above the domestic price, would be exempt from the requirement of the revised pricing guidelines. Companies going for such simultaneous or immediate follow on offering in the ADR/GDR market will have to take SEBI's approval for such issue, which will specify the percentage to be offered in the domestic and ADR/GDR markets.

It was also clarified that unlisted companies, which have already issued Global Depositary Receipts/Foreign Currency Convertible Bonds in the international market, and are to list in the domestic market, would be required to do so by 31st March, 2006.

(viii) Investment in ADRs/GDRs/Foreign Securities by Mutual Funds

In continuation to the earlier circulars SEBI has made amendment pertaining to investment by mutual funds investing in

ADRs, GDRs and other foreign securities. It has now been decided that in mutual fund schemes, where disclosure pertaining to investment in ADRs/GDRs/foreign securities has not been made in the offer document, then in such cases prior to investment in ADRs/GDRs /foreign securities for the first time, the AMC shall ensure that a written communication about the proposed investment is sent to each unit holder and an advertisement is given in one English daily newspaper having nationwide circulation as well as in a newspaper published in the language of the region where the Head Office of the mutual fund is situated. The communication to unit holders shall also disclose the risk factors associated with such investments. However this provision will not be applicable to the existing mutual fund schemes where relevant disclosure regarding investing in ADRs/GDRs/foreign securities has already been made.

(ix) Mutual Funds are allowed to participate in Exchange Traded Derivative Contracts

Following the recommendations of the Secondary Market Advisory Committee, SEBI decided to permit mutual funds to participate in the derivatives market at par with Foreign Institutional Investors (FII). Accordingly, mutual funds shall be treated at par with a registered FII in respect of position limits in index futures, index options, stock options and stock futures contracts. Mutual funds will be considered as trading members like registered FIIs and the schemes of mutual funds will be treated as clients like sub-accounts of FIIs. This revised policy shall be applicable to all new schemes which are yet to be launched, or for which offer documents have been submitted to SEBI for approval. Appropriate disclosures are to be made in the offer document regarding the extent and manner of participation of the schemes of the mutual funds in derivatives and the risk factors. The mutual fund position limit in all index options contracts and in all index futures contracts on a particular underlying index shall be Rs. 250 crore or 15% of the total open interest of the market in index options, whichever is higher, per Stock Exchange. This limit would be applicable on open positions in all options contracts on a particular underlying index. Short positions in index derivatives (short futures, short calls and long puts) shall not exceed (in notional value) the mutual fund's holding of stocks. Long positions in index derivatives (long futures, long calls and short puts) shall not exceed (in notional value) the mutual fund's holding of cash, government securities, T-Bills and similar instruments.

Each mutual fund is required to notify the names of the Clearing Member/s for each scheme through whom it would clear its derivative contracts to the stock exchange. The stock exchange would then assign a unique client code to each scheme of the mutual fund. The stock exchange is required to monitor the scheme-wise position limits in the manner similar to that prescribed for FIIs and their sub-accounts.

(x) Discontinuation of Hand Delivery Bargains/Delivery versus Payment (DVP)

SEBI has issued a circular in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market. SEBI had observed that some of the institutional investors were still relying on Hand Delivery Bargains/Delivery Versus Payment (DVP) for settlement of some of their transactions. This Hand Delivery Bargains/DVP are essentially bilateral settlement mechanisms. In consultation with stock exchanges, custodians and other market participants SEBI decided that all transactions executed on the stock exchanges would, henceforth, be settled through the Clearing Corporation/House of the stock exchanges. This came into effect from September 19, 2005.

(xi) Review of Dematerialization Charges

SEBI rationalized the tariff structure with regard to account opening charges, custody charges and transaction charges towards the credit of securities. Pursuant to the representations from the investor community and in order to encourage more investors to hold securities in demat mode, SEBI made entry into the demat environment free except from applicable statutory charges.

SEBI observed that Depositories and Depository Participants (DPs) were levying transaction charges for the transfer of securities from one DP to another DP although no account closure charges were levied by the depositories or depository participants. This implies that an investor, who is not satisfied with the services of a DP, can move his BO account to another DP, only at a cost.

SEBI decided that with effect from January 09, 2006, no charges would be levied by a depository on a DP and consequently, by a DP on a Beneficiary Owner (BO) when a BO transfers all the securities lying in his account to another branch of the same DP or to another DP of the same depository or another depository, provided the BO Account/s at transferee DP and at transferor DP are one and the same, i.e. identical in all respects. In case the BO Account at transferor DP is a joint account, the BO Account at transferee DP should also be a joint account in the same sequence of ownership.

SEBI advised the depositories/DPs to put in place necessary systems and procedures to differentiate between an account closure transaction and a normal debit transaction on or before January 08, 2006 so as to avoid any problems in the live environment and ensure smooth implementation of the aforesaid decision.

(xii) MAPIN Database

A SEBI committee set up to re-examine the issues relating to the market participants and investor database (MAPIN) suggested a new software to assign a unique ID to each participant based on non- biometric using disclosures only for all market participants who are yet to obtain Unique Identification Numbers. The committee felt that the earlier method was costly and lacked the reach. SEBI initiated action to examine the recommendations of the committee and some other suggestions that have been made to SEBI and to arrive at a solution that ensures unique investor identity while minimizing hardship to small investors.

The SEBI Board in its meeting held on 30 December, 2005 decided to resume fresh registrations for obtaining Unique Identification Number (UIN) under SEBI (Central Database of Market Participants) Regulations, 2003 (MAPIN), after considering the recommendations of the Committee set up by SEBI to examine the issues related to MAPIN.

The registration process will be resumed in a phased manner. To begin with, the cut off limit for obtaining UIN with biometric impressions for natural persons has been raised from the existing limit of trade order value of Rs.1.00 lakh to Rs.5.00 lakh or more. The limit will be reduced progressively. Agencies capable of providing such facilities in a cost effective manner will be assigned the responsibility of maintaining the databases. For trade order value of less than Rs.5.00 lakh, option will be available to investors to obtain either the Permanent Account Number of Income Tax Department or UIN obtained under MAPIN. Investors in mutual funds would be exempted from the requirement of obtaining UIN. The definition of promoter, which is a body corporate would be limited, to immediate holding company of the Indian entity and any of the subsidiaries, if located in India. Listed company or a company which intends to get its securities listed, along with their promoters, directors, officers and designated employees would be required to obtain UIN. These changes will be implemented after the necessary amendments are made to the MAPIN Regulations.

5.4.2 PENSION REFORMS SECTION

The Standing Committee on Finance which examined the Pension Fund Regulatory and Development Authority Bill, 2005, presented their report in Parliament on 26th July 2005. The recommendations of the Committee are summarized below:

(i) to allow withdrawal from Tier I account also;

(ii) to specify in clear terms in the Bill that one of the pension funds would be from the public sector;

(iii) to give preference in selection to such pension fund managers that guarantee returns and to spell out the pre-requisites relating to capital structure and experience criteria for selection of pension funds and other intermediaries in the Bill;

(iv) to make available to subscribers an option of 100% investment in Government securities and to indicate this in the Bill;

(v) that any decision relating to permitting FDI in the pension sector should be implemented only by way of suitable amendments in the legislation; and further that such decisions and decisions relating to deployment of pension funds outside the country should not be at variance with related provisions applicable to the insurance sector;

(vi) to set up a Pension Advisory Committee similar to the Insurance Advisory Committee of IRDA;

(vii) to rephrase clause 4 of the Bill to clearly depict the composition of the Authority; to select members of the Authority only from amongst professionals having experience in economics or finance or law; one of the part-time members to be a Central Government nominee;

(viii) to include the differentiation between Tier-I and Tier II accounts as a part of the basic or essential features of the New Pension System in clause 20 of the Bill; and

(ix) to bring forward a comprehensive legislation in order to cater to the social security of the unorganized sector inclusive of pension coverage of the workforce simultaneously with the setting up of PFRDA as a statutory body.

The recommendations of the Committee have been examined and a proposal for amending the PFRDA Bill, 2005, based on the recommendations of the Committee is under the Government's consideration.

The Bill proposes that the main mandate of PFRDA is to regulate the NPS, as amended from time to time by the Central Government. Pension schemes already covered under the Employees' Provident Fund & Miscellaneous Provisions Act, 1952 and other enactments would be specifically excluded from the regulatory jurisdiction of PFRDA. However, individuals covered under such mandatory programs under other Acts can voluntarily choose to additionally participate in the NPS.

As proposed in the Bill, PFRDA will establish the institutional architecture of the NPS including the Central Record keeping Agency (CRA) and pension funds. Further, the Bill provides that PFRDA will frame investment guidelines for pension funds. There are provisions empowering PFRDA to impose stringent penalties for any violation of the law and to create a special fund, to be used for educating and protecting the interests of subscribers to schemes of pension funds.

CREDIT RATING

On 19th May 2005, Fitch's affirmed their foreign currency rating of India of BB+ with a stable outlook. In August 2005, the Japan Credit Rating Agency affirmed their rating of BBB with a stable outlook.

During the year under review, a rating team from Standard & Poor's met officers of the Ministry of Finance on 25th August 2005. Subsequently in December 2005, they reaffirmed their rating of BB+ with stable outlook on both domestic and foreign currency.

According to S&P, the principal risks are generated by India's weak fiscal profile specially its high deficit and serious fiscal inflexibility. At the same time they observed that tax initiatives including implementation of VAT, a service tax and tightening administration could result in more buoyant Government revenues. According to them, India's economic prospects are stable and strong with GDP growth likely at 7% in the medium term, a dynamic service sector and an industrial sector benefiting from gradual deregulation, trade liberalization, and modes improvements in infrastructure. S& P is of the view that good economic growth and a rising savings rates could contain the pressure on India's weak public finances. India's resilient external position is expected to be maintained.

According to S&P, the stable outlook on the ratings reflects that the pace of factors such as correction on the fiscal front, improvements in the external sector and lifting of India's potential growth rate, will be gradual. They also said that India's rating could be raised if the general government deficit is reduced further or economic growth trends is enhanced substantially. On the other hand, it the debt burden continues to rise rapidly, engendering macroeconomic instability or external vulnerability, the rating could be lowered.

Action taken to implement the flagship NCMP Programmes and other important policy initiatives announces through Finance Ministers Budget Speech 2005-06.

Expert Group on Protection of Small Investors and New Avenues for Safe Investment of their Savings

An Expert Group was constituted to suggest measures for further protection of small investors and introduction of new saving instruments for them which were enshrined as Government Commitments in National Common Minimum Programme. The Group which was chaired by the then Chairman, SEBI had representatives from DEA also which included JS(CM) and Director (Budget). The Group has submitted its report on 29th January 2005 suggesting various measures, such as, single ombudsman to address the grievances of investors, registration and regulation of financial advisers to give professional investment advise to investors and an inflation indexed savings scheme for senior citizens. The recommendations of the Group are under examination.

Committee on Liberalisation of FII Investment

The National Common Minimum Programme (NCMP) lays down that FIIs will continue to be encouraged while the vulnerability of the financial system to the flow of speculative capital will be reduced. While reviewing the implementation of NCMP, Prime Minister desired that an Expert Group should be set up to look into these issues and provide an Action Plan for time-bound implementation Accordingly, a committee was constituted under the chairmanship of Dr. Ashok Lahiri, Chief Economic Adviser. The report was submitted on 22nd November, 2005 and placed on the website of the Ministry of Finance for public comments.

The main recommendations of the Group are as follows:

I. Encouraging FII flows:

In terms of encouraging FII flows, one aspect of difficulty lies in the treatment of FDI sectoral limits and FII sectoral limits. The Committee on Liberalisation of Foreign Institutional Investment has proposed reforms aimed at separating these two. Any potential abuse of the FII route by strategic investors of foreign direct investors should be prevented by strictly enforcing the broad-based nature of the FIIs through appropriate regulation of PNs and sub-accounts.

Thus, FII investment ceilings, if any, may be reckoned over and above prescribed FDI sectoral caps. The 24 per cent limit on FII investment imposed in 1992 when allowing FII inflows was exclusive of the FDI limit. The suggested measure will be in conformity with this original stipulation. As a transitional arrangement, the current policy of a composite cap, wherever it exists, for both FDI and FII investment limits, may be continued. However, attempt should be made, in consultation with the Ministries concerned, that this composite cap is at a sufficiently high level.

Non-availability of good quality equities in adequate volume appears to impede FII flows. FII flows would be encouraged by greater volume of issuance of securities in the Indian market. This would be assisted by PSU disinvestment. Companies executing large projects in the infrastructure sector and telecom sector should also be encouraged to access the domestic capital markets.

II. Vulnerability to FII flows

Strengthening domestic institutional investors

The participation of domestic pension funds in the equity market would augment the diversity of views on the market. This would also end the anomaly of the existing situation where foreign pension funds are extensive users of the Indian equity market but domestic pension funds are not

Participatory Notes

The current dispensation for PNs may continue. SEBI should have full powers to obtain information regarding the final holder/ beneficiaries or of any holder at any point of time in case of any investigation or surveillance action. FIIs may be obliged to provide the information to SEBI.

Hedge Funds

Regulatory developments with regard to hedge funds in the US and elsewhere, including Europe, may be closely watched to formulate policy on the basis of experiences of these countries at a later date. Only those funds which are otherwise eligible to be registered as FIIs/sub-accounts under SEBI (FIIs) Regulations, 1995 may be continued to be allowed.

Ceiling on FII and sub-accounts

The existing limit of 10 per cent holding in any one firm by any one FII may be extended to cover the sum of the holdings of any one FII and all such sub-accounts coming under that FII which have common beneficial ownership as the FII. The onus for establishing that a sub-account does not have a common beneficial ownership will lie with the FII. This requirement may be phased in over a five-year period, with a limit of 20 per cent by December 2005, 18 per cent by 2006, 16 per cent by 2007, 14 per cent by 2008, 12 per cent by 2009 and 10 per cent by 2010.

Broad basing of eligible entities

With the policy of market regulation being the encouragement of broad-based funds to invest in the country, high net-worth individuals fall outside the category of diversified investors. In order to address the market integrity concerns arising out of allowing some entities, which do not have reputational risk or are unregulated, there is merit in prohibiting such entities from getting registered. Such existing entities may be given sufficient time to wind up the position.

Operational flexibility to impart stability to the market

The stability of foreign investment in India will be enhanced if FIIs are able to switch between equity and debt investments in India, depending on their view about future equity returns. Greater flexibility for FIIs to participate in the bond market will induce more "balanced" strategies, and mixing of equity and debt. Such FII investment in debt will indeed be a part of India's external debt, but with an important difference, namely that such debt will be in domestic currency. Keeping this important difference in mind, the quantitative restriction upon debt flows may be progressively amended to a cap on the annual flow from the present ceiling on the aggregate portfolio value.

Negative list of tax-havens

Consistent with the recommendations of the Financial Action Task Force (FATF), it must be ensured that only clean money through recognized banking channels is permitted in the securities market. There should be a negative list of tax havens, whereby entities registered in these jurisdictions are prevented from attaining FII status.

Knowledge activities

Department of Economic Affairs should initiate a research program on "Capital flows and India's Financial Sector: Learning from theory, international experience, and Indian evidence".

Securities Contracts (Regulation) Amendment Bill, 2005

The Securities Contracts (Regulation) Amendment Bill, 2005 was introduced in the Lok Sabha on 16.12.2005 pursuant to the announcement in Budget 2005-06 regarding provision of a legal framework for trading of securitised debt including mortgage backed debt. The Bill stands referred to the Standing Committee on Finance.

In India, the securitisation market remains underdeveloped. Although two major legislative initiatives, namely, (a) the amendment to the National Housing Bank Act, 1987 (NHB Act) in the year 2000; and enactment of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, (SARFAESI Act), have been taken, the market has not picked up because of the absence of the facility of trading on stock exchanges. The potential buyers get discouraged by the possibility of having to hold the certificate or instrument in respect of securitisation transactions till maturity. This, in turn, restricts the growth of business of housing finance companies and banks. Securitisation transactions under the NHB Act are not covered under the definition of "securities" in the SCR Act. As such, trading in certificates or instruments relating to such transactions cannot take place on stock exchanges and buyers of such securitised financial certificates or instruments are left with few exit options. Under the SARFAESI Act, while "security receipts" have been covered under the definition of "securities", the provisions of the said Act restrict sale and purchase only amongst qualified institutional buyers. Besides, the "security receipts" under the SARFAESI Act can be issued only by a securitisation company or a reconstruction company registered with the Reserve Bank of India. This obviously limits the interest in such receipts and the market has not taken off at all.

Keeping in view the potential of the securities market for the certificates or instruments under securitisation transactions, international trends and consultations held with major institutional participants and market experts, it was decided to amend the SCR Act, inter alia, -

(i) to include securitisation certificates or instruments under the definition of "securities" and to insert for the said purpose, a new sub-clause (i.e.) in clause (h) of section 2 of the SCR Act, 1956;

(ii) to provide for obtaining approval from the Securities and Exchange Board of India for issue of the proposed certificate or instrument and procedure therefore and insert for the said purpose a new section 17A in the SCR Act, 1956; and

(iii) to provide for the manner in which contents of such certification or instrument, being the "securities" and acknowledging beneficial interest shall be disclosed.

Mumbai as a Center for International Finance

In his Budget speech the Finance Minister has made the announcement in para 90 regarding appointment of a high powered Expert Committee to advise the Government on how to make Mumbai a Regional Financial Center. This Committee has been constituted in November 2005 under the Chairmanship of Shri Percy S. Mistry, Chairman, Oxford International Group.

Other Budget 2005-06 announcements

Various tax and non-tax proposals were processed and proposed in the Budget 2005-06. These are summarized below alongwith the current status of implementation.

(i) one time stamp duty exemption on notional transfer of assets of mutualised stock exchanges transforming in to corporatised and demutualised stock exchanges - this has since been done.

(ii) appointment of a High Level Expert Committee on Corporate Bonds and Securitisation to look in to legal, regulatory, tax and market design issues in the development of the corporate bond market - the report was submitted to Government on 27.12.2005 and is under examination.

(iii) Providing a legal basis for legal validity of Over-the-Counter derivatives to further develop this market - the RBI (Amendment) Bill, 2005 to give effect to this stands referred to the Standing Committee on Finance.

(iv) Introduction of gold exchange traded funds to provide new saving instruments to households - SEBI Board approved this on 30.12.2005 and it would be implemented in due course.

(v) amendment of the Income Tax Act, 1972 to provide that trading in derivatives in specified stock exchanges will not be treated as speculative transaction to further develop the derivatives market - this has since been done.

5.4.3 External Commercial Borrowing

RBI opened a window to enable qualified NGOs engaged in micro finance activities and having satisfactory borrowing relationship for at least 3 years with a scheduled commercial bank authorized to deal in foreign exchange to raise ECB up to USD 5 million during a financial year for permitted end-use under the Automatic Route. Subsequently, non-banking financial companies were permitted to access ECB with minimum average maturity of 5 years from multilateral financial institutions, reputable regional financial institutions, official export credit agencies and international banks to finance import of infrastructure equipment for leasing to infrastructure projects. Housing finance companies satisfying certain criteria notified by RBI were also allowed to raise Foreign Currency Convertible Bonds. It has now been decided to amend the policy to permit the Multi State Co-operative Societies engaged in manufacturing activities in real sector with financial solvency and up to date audited balance sheet to access ECB under the Approval Route.

5.4.4 UTI & JPC Section

(i) Foreclosure of Assured Return Scheme (ARS)

All the ARSs, except for 1 have been closed/foreclosed. All these ARSs have been closed/foreclosed by paying the investors in cash or through issuance of Bonds issued by Specified Undertaking of UTI (SUUTI) and guaranteed by Government of India. Presently, only 1 ARS remains on the books of SUUTI which is due to mature on 30.6.2006.

(ii) Sale consideration of UTI II (UTIAMC)

In accordance with the provisions of Transfer Agreement signed between the Govt. of India and the sponsors on 15.1.03, the sale consideration for the transfer of NAV based schemes was decided at Rs.1,236.95 crore. The sponsors paid this amount to the Government during the year.

(iii) The Report of the Joint Parliamentary Committee on Stock Market Scam and matters relating thereto was presented to the Parliament on 19th December 2002. In Para 3.31, the JPC recommended that the Government should present its Action Taken Report to the Parliament within six months and, thereafter, a Progress Report every six months until action on all the recommendations has been fully implemented to the satisfaction of the Parliament. The Government submitted the Action Taken Report to the Parliament on 9.5.2003. During the year, the Government presented Fourth and Fifth Progress Reports to the Parliament in July 2005 and December 2005.

Out of a total of 276 recommendations/ observations/ conclusions made by the JPC, action has already been completed on 233 recommendations. The number of pending recommendations has thus come down to 43.

5.4.5 RTI Cell

A Cell has been created in Department of Economic Affairs for implementing the provisions of the RTI Act, 2005 viz. furnishing of information on requests made to the department, collection of prescribed fees and coordination of the work of RTI with the PIOs, Nodal Officers, of the department and attached/subordinate offices.

Upto 21.02.06, 40 requests were received in DEA out of which 36 requests were disposed off. Rs.2,350 were collected towards charges under the Act.

In terms of Section-4 of the Act, the particulars of the departments, its functions, duties, powers, details of procedure followed in decision making, rules, regulations etc. were published in the website of the department.

5.4.6 Vigilance Section

During the year, disciplinary proceedings were initiated/ continued against two Gr. 'A' Officers, four Gr. 'B' Officers, four Gr. 'C' Officers and four Gr. 'D' employees.

Penalty of dismissal from service was imposed on a Gr. 'B' Officer. In another case involving a Gr. 'B' Officer, the case was closed due to the death of the Charged Officer.

Strict watch was kept on corruption prone areas in the department and its subordinate organizations. Security instructions received from Ministry of Home Affairs were also brought to the notice of all concerned for further tightening of security measures.

Special efforts were also made to review all suspension cases and to dispose of expeditiously vigilance/disciplinary cases pending with the Department and its subordinate organizations. Special instructions/guidance received from CVC were also brought to the notice of all concerned for strict compliance.

Vigilance Verification Unit conducted physical verification of the stocks held by the India Govt. Mints, Security Presses comprising the total of nine organizations.

6. ASIAN DEVELOPMENT BANK DIVISION

6.1 Currency & Coinage Division

There are nine industrial Units in the country engaged in production of Currency and Coins. Out of these, four are Mints, two Note Printing Presses, two Security Printing Presses and one Security Paper Mill. In pursuance of the Finance Minister's budget speech Pay and Accounts offices of all the nine units have been fully computerized.

New design of Coins

Government has decided to issue new series of Coins in the denominations of Re 1 & Rs.2/- in ferritic Stainless Steel and Rs. 5/- and Rs. 10/-, a new coin, in bimetallic, with three themes i.e. (i) unity in diversity (ii) connectivity and information technology (iii) Mudra.

Commemorative Coins

Government has issued commemorative coins on 75 years of Dandi March and Birth centenary year of Lal Bahadur Shastri. It has also been decided to issue commemorative coin on Mahatma Baseveshwara and State Bank of India bicentennial year.

Sale of Bullion.

Government has decided to dispose of the stock of Gold (3.13 M.Ts) and Silver (1600 M.Ts Approx) lying in the India Government Mints. The amount received from sale of entire stock of Gold is Rs. 183.90 crore and out of 1600 MT of Silver, 788.93 M.Ts. valued Rs. 732.71 crore have been sold out till 31.12.2005.

Corrporatisation of Security Presses/Paper Mill/Govt. Mints

The Government of India has decided to set up a wholly owned Corporation, tentatively known as the Security Printing and Minting Corporation of India (w.e.f. 1.10.2005 or any other date approved by the Government). The decision in this regard was taken by the Union Cabinet in its meeting held on 02.09.2005. all the 9 Security Units functioning under the administrative control of the Department of Economic Affairs, Ministry of Finance viz. Currency Note Press, Nashik, Bank Note Press, Dewas, India security Press, Nasik, Security Printing Press, Hyderabad, Security Paper Mill,. Hoshangabad, India Government Mints at Mumbai, Hyderabad, Kolkata and Noida would be taken over by the newely set up Corporation. The assets and liabilities, and the staff of all the 9 units would be transferred to the Corporation.

(2) The decision of the Government on setting up of the Security Printing and Minting Corporation of India is based on the recommendations of Expenditure reforms Commission (ERC) which submitted its report to the Government in December, 2000. ERC had mentioned that there were major constraints in the existing Units like low productivity, obsolete technology, outdated financial system and procedures besides delay in responding to technological changes. The new Corporation would help in reducing Government expenditure on account of rationalization of operational processes and result in overall improvement in decision making, operational flexibility, greater efficiency and higher productivity.

(3) While approving the proposal for corporatisation, due safeguards have been provided for taking care of the interest of the employees. It has been decided that there shall be no action that would adversely affect the service conditions of the employees on the creation of the new Corporation. The employees of all the 9 security Units would be taken over by the new Corporation on existing terms and conditions. They will be treated on deemed deputation for a period of 2 years during which employees will be allowed to exercise option for being absorbed in the Corporation. Budget provision of Rs. 700 crores have been made in RE-2005-06 for the Corporation.

Dematting of stamp Papers

Government of India entrusted the task of selection and appointment of Central Record keeping Agency (CRA) to facilitate the computerization of stamp duty administration system to Industrial Finance Corporation of India (IFCI). IFCI constituted an Experts Committee, which after due technical and financial bids, has recommended the appointment of Stock Holding Corporation of India Limited (SHCIL) as CRA. Accordingly, government of India has authorized SHCIL to act as CRA for the proposed computerization of Stamp Duty Administration System in various states. SHCIL will offer its services for computerization of Stamp Duty Administration on Built-operate-transfer (BOT) basis.

(2) The system proposed by SHCIL involves appointment of Authorized Collection Centers (ACCs), setting up of a central server, linking all the computers of ACCs with central server, providing access to Sub-Registrar's office, Office of the Inspector General of Stamp sand registration and Department of Revenue. SHCIL will collect an impressed amount in advance from the ACCs and set the limit in the system for each of the ACC.

(3) The most important feature of the system is the security features incorporated in the stamp certificates. The stamp certificates, which will replace the stamp papers and franking, will have a unique number generated by the system. The unique number apart, the stamp certificates will be optical water marked, micro printed and 2-D bar coded. The stamp certificate cannot be photocopied as the photocopy will contain the word `copy' instead of watermark in the original and the micro print will get blurred. Moreover, the 2-D bar code containing the details of the stamp certificates can never be modified/altered. Thus, the proposed system will eliminate all leakages in the revenue on account of stamp duty and provide the state with a foolproof system.

(4) In the meeting with the Finance/Revenue Secretaries and representative of all State Governments was held under the Chairmanship of Secretary, Department of Economic Affairs, on the 4th January, 2006 in North Block, where as detailed presentation was made by SHCIL and a threadbare discussion was held with State representatives for participation of the States in the proposed system.

Brief para about the functions/working of organisation

6.1.1 India Security Press, Nashik Road (Maharashtra) established in 1924:

It consists of two units, the Stamp Press and Central Stamp Depot. The Stamp Press Unit prints postal stationary, Postal and non-postal stamps, judicial and non-judicial stamps, RBI/SBI Cheques, bonds, National Saving Certificates, Indira Vikas Patras, Kisan Vikas Patras, Postal Orders, Passports, Promissory Notes and such other security documents as may be required by the Central and State Governments Public Sector Undertakings Financial Corporations and Local Bodies. It also prints MICR and non-MICR cheques etc. The Central Stamp Depot unit stocks the finished product of the ISP and deals with its supply to various organizations all over India.

Information about the performance/achievements upto last year & during the year under review.

(I) Production Figures:

(A)

(figures in crores)

S.No.	Item	2003-2004	Production for 1.4.2005 to 30.10.2005
01	Post Cards	0.177	1.4665
02	Ordinary Envelope	0.8774	...
03	Registration Envelope	0.5560	0.579
04	Inland Letter Cards	1.9386	0.3984
05	Aerogramme	0.2757	0.0055
06	Public Postage Stamps	1.4453	1.21118
07	Special Postage Comm. Stamps	31 issues	0.2322531
08	Non-Postal Adhesive Stamps	1.1184	0.7105325
09	Non-Judicial & Allied Stamps	8.7010	4.1136
10	NSC/KVP(Savings Instruments)	7.4792	2.061
11	Non-MICR Cheques	0.2923	0.002723
12	MICR Cheques	4.3260	2.1868522
13	Misc. Security Forms	1.3748	0.080535
14	Passports & Allied Booklets	0.2588	0.5262962
15	Sticker/Labels/Cards/Seals	0.2740	0.0501

6.1.2 Security Printing Press, Hyderabad (Andhra Pradesh) established in 1982

It prints and supplies postal stationery such as post cards, inland, envelopes and non-judicial stamps to all the southern States and West Bengal, Orissa, Madhya Pradesh Bihar Jharkhand and Chattisgarh. It also prints Central Excise Stamps to cater to the need of entire country

Item-wise production of this Press 2004-05 and upto 31-12-2005 are shown below:

Figures in Crores

Item	2004-05 Production	1.4.2005 to 31.12.2005 Production
Post Card	28.54	16.44
Inland Letter card	7.47	1.20
Envelope	0.72	1.22
Non-Judicial Stamps	3.12	10.14
Forces Letters I.A.F.5	1.88	0.00
Forces Letters I.A.F.6	1.36	0.00
Kisan Vikas Patras Rs.1000/-	0.30	0.00
Indian Postal Orders	3.61	0.85
Court Fee Stamps	0.00	0.16

6.1.3 Currency Note Press, Nasik Road (Maharashtra) established in 1962:

Currency Note Press prints and supplies Bank Notes of denomination of Rs.5/- Rs. 10/-, Rs.50/-, Rs.100/-, Rs. 500/- and also Rs.1000/- as indented by Reserve Bank of India.

Production figures during the year 2005 in Note pieces:

Denomination	Output During the year 2004	Issued During the year 2004	Output During the year 2005	Issued During the year 2005
Rs.5	211,440,000	238,000,000	0	0
Rs.10	1,329,420,000	1,168,000,000	945,990,000	1,136,000,000
Rs.50	360,000,000	368,000,000	132,550,000	126,000,000
Rs.100	677,650,000	752,000,000	242,960,000	240,000,000
Rs.500	37,339,000	29,500,000	231,161,000	239,000,000
Rs.1000	77,440,000	82,300,000	0	0

6.1.4 Bank Note Press, Dewas (Madhya Pradesh) established in 1973:

Bank Note Press, Dewas (M.P) was established in the year 1973 for printing bank notes exclusively with Intaglio process. The press was initially set up with five lines machines in 1974 and the said machines were continuous use since then. These machines have become out-dated, obsolete in technology, old, unproductive, lost their accuracy and therefore the inefficiency of the machines adds to the cost of notes. Out of the five lines of machines, two lines of machines were replaced in 1996-97. The remaining three-lines of machines await replacement.

Despite the above difficulties and odds, the press has managed to exhibit remarkable performance year after year, particularly in the last 6-7years and the trend continues. In the current year, though about half of the production period out of 9 months from April to December 2005 was only available, BNP has performed remarkably well by dispatching 883.990 mpcs. which is about 45.33% for the first 3 quarters [Yearly indent 2600 mpcs & proportionately for 9 months (3 quarters) it is 1950 mpcs.]

The ink factory was also set up with technology known-how from M/s.SICPA, Switzerland for manufacturing the security inks like Dry Offset and intaglio inks for the old generation printing machines. The supplies from the ink factory includes liquid inks (Gravure) and Dry Offset inks for sister units like CNP., ISP.,SPP., BRBNMPL. and other Government presses. The Quick Set Ink Technology is not yet acquired by Ink Factory for manufacturing Quick Set Intaglio Inks for bank note printing. Apart from manufacturing the security inks, the expert opinion is also furnished on the counterfeit currency notes referred to BNP from various courts and investigating agencies. During the period 01.04.2005 to 31.12.2005, 144 cases were received for expert opinion consisting of 9910 mpcs. of counterfeit notes.

6.1.5 Security Paper Mill, Hoshangabad (Madhya Pradesh) established in 1967:

Commissioned in the year 1967, the Security Paper Mill manufactures Bank Note Paper, Non Judicial Stamp Paper and other Security Papers and caters to the requirement of Bank Note Press, Dewas, Currency Note Press, Nasik Road, Security Printing Press, Hyderabad, Bhartiya Reserve Bank Note Mudran(P) Ltd., Mysore and BRBN(P)L, Salboni. Prior to establishment of the Mill, the entire requirement of Security Paper and Bank Note Paper were being met by import. The production during the year 2004-05 was2297.5 MTs. And the production for the current year from April to December, 2005 is 1943.3 MTs. During the current financial year, SPM has commenced regular production/supply of Non Judicial Stamp Paper with new security features like incorporation of new security thread having yellow fluorescence under U/V light, Security fiber and chemical sensitization of paper. SPM has been successful trial production of Bank Note Paper with modified security features and regular production of the same is planned in Jaunuary,2006.

6.1.6 Mints:

(I) The four Government Mints are at Mumbai (Maharashtra) established in 1829, Kolkata (West Bengal) established in 1952, Cherlapally, Hyderabad (Andhra Pradesh) established in 1903 at Hyderabad and extended to Cherlapally in 1997, and Noida (Uttar Pradesh) established in 1988.

(II) The main function of the Mint is minting of coins to meet domestic requirement. The Assay Departments attached to Mumbai and Kolkata Mints assay gold, silver and alloys for coins, medals, badges etc. The Mumbai Mint manufactures commemorative coins and weights, volume and length measures. It also undertakes Gold melting, refining and casting work. They also do the work of exchanging standard Gold Bars against unrefined gold through collection-cum-delivery centers operated by Mumbai and Kolkata Mints. Kolkata Mint also makes commemorative coins and medal

(III) India Government Mint, Kolkata:

The target of production of Coin of different denomination during 2005-06 is 200 m.pcs. (Million Pieces) whereas the actual production (upto 31-12-2005 is 100.1705 Million Pieces.

The Mint manufactured 1,04,664 pieces of medals and delivered 1,02,353 pieces of medals during the year 2004-05 to various Central Government departments like Ministry of Defence, Ministry of Home Affairs etc.

The Medals manufactured during 2005-2006 (Upto 31.12.05) are 32,779 pieces and delivered during this period 29,718 pcs.

During the year 2004-2005 this Mint prepared 770 sets of Commemorative Coins on Dr. S.P. Mukherjee (I set consists of Rs. 100/-,50/-,10/-,2/- each one no),3300 sets of Commemorative Coins of " Sant Tukaram" (1 set consists of Rs. 100/-, 50/-, 10/-,2/- each one no.),2710 nos. of 2 coin sets on "150 years of Indian Railways" (Rs. 100/- & 2/-), 160 nos./ of VIP sets on "150 years of India Post"(Rs.100/- & Re.1/-) & 35 nos of VIP sets (Rs.100/- & Rs.2/-) on 150 years of "Telecommunications" Commemorative coins.

During the year 2005-2006 (up-to 31.12.2005) this Mint manufactured1565 sets of Commemorative Coins on "150 years of Indian Railways", 3100 sets of Commemorative Coins on "150 years of India Post" 100 nos. of 2-coin sets & 20 nos. of 2-coin VIP Sets on "Lal Bahadur Shastri Birth Centenary" (Rs. 100/- & Rs. 5/-).

(IV) India Government Mint, Noida

Noida Mint produces small denomination coins. The production achieved vis-à-vis the target fixed are furnished below:-

(In Million Pcs)

Denomination	2001-2002		2002-2003		2003-2004		2004-2005		2005-2006 (as on 31.12.05)	
	Target	Prod.	Target	Prod.	Target	Prod.	Target	Prod.	Target	Prod.
Rs.5	390	341	200	155	185	172.	...	--	...	...
Rs.2	260	198	400	13	350	442	-	7.4275	-	11.9775
Re.1	360	470	550	791	375	226	-	234.9975	-	4.675
50P	140	143	50	113	...	...	...	...	...	...
25P	...	...	...	...	...	...	...	...	...	...
10P	...	...	...	...	...	...	...	...	...	...
Total	**1150**	**1152**	**1200**	**1072**	**910**	**840**	**--**	**242.4250**	**...**	**16.6525**

(V) India Government Mint, Cherlapally, Hyderabad

The overall production of coins in both the Mints for the year 2004-2005 was 307.8035 million pieces as against the target of 300 million pieces (Saifabad Mint - 105.7335 million pieces and Cherlapally Mint 202.0700 million pieces). The targeted production of coins for the year 2005-06 is 200 million pieces, against which the Mint has produced 81.5250 million pieces up-to 31.12.2005 (Saifabad Mint -18.9250 million pieces and Cherlapally Mint - 62.6000 million pieces)

In addition to the production of coins, the Mint has produced various gold and silver medallions for different Universities and Educational Institutions and also Silver dollars for Tirumala Tirupathi Devasthanam, Tirupathi.

India Government Mint, Mumbai:

(a) The targeted production of coins for the year 2004-2005 was 605 million pieces against which the Mint produced 296.4942 million pieces. The targeted production of coins for the year 2005-2006 is 200 million pieces against which the Mint has so far produced 68.6105 (upto 31/12/2005) million pieces.

During the year 2005-2006 the Mint has produced commemorative coins as under:

Year	Theme	Proof/Uncirculated	For Circulation
2005-06	75 years of Dandi March	1. Rs.100/- each 2. Rs.5/- each	Rs.5/-

(b) The Mumbai Mint manufactured medals, tokens, dies, seals to T.T.D., Guruvayoor & Attukal Temple and weights & measures of various standard stamping equipments were delivered to all State Govt. and union territories from 1.4.05 to 31.12.05 as detailed below:

(c)

Description of Items	01.04.2004 To 31.03.2005	01.04.2005 To 31.12.2006
Medals	53520 Nos.	28859 Nos.
Dies	02 Nos	32 Nos.
Seals	07 Nos	10 Nos.
Punches	36 Nos	78 Nos.
C.N.Tokens	20780 Nos	---
Acrylic Inserts	200 Nos	---
pliers	10 Nos	---
Weights&Measures(in set)	3836 Nos	3042 Nos.
Weights&Measures(in no.)	98 Nos	238 Nos.

(c) Gold refining:- Mumbai Mint has undertaken Gold refining and melting work as detailed below:-

(In Grams)

S.No.	Particulars	01.04.2004 To 31.3.2005 (Weight in Gms.)	01.04.2005 To 31.12.2005 (Weight in Gms.)
1.	Refining of Gold	1,202,177.100	---
2.	Melting of Gold Inclusive of GDS	1,492,284.600	1,312,597.100
3.	GDS/Merchants Allocation of Gold	209,294.900	276,093.500
4.	Casting of Gold GDS etc.	699,947.250	804,399.300

(d) This Mint also manufactured and delivered to the Director, Small Savings, Govt. of Rajastan,Jaipur, 3,29,684 pieces of gold coins in assorted denominations of 5.xgms/2xgms/ 1.xgms. weighing in aggregate 501,794.xgms.

(e) Gold items weighing 3,133,451.800 gms. Were issued to M/s. MMTC Ltd., for sale.

(f) Silver/Q.A. items weighing 87,735,842 xgms. Were also issued to M/s. MMTC Ltd., for sale.

6.2.1 Asian Development Bank

Asian Development Bank (ADB), an international Partnership of 64 member countries was established in 1966 with its headquarters at Manila, Philippines. India is a founder-member. The Bank is engaged in promoting economic and social progress of its developing member countries in the Asia and the Pacific region. Its principal functions are as follows:

(i) to make loans and equity investments for the economic and social advancement of its developing member countries;

(ii) to provide technical assistance for the preparation and execution of development projects and programs and advisory services;

(iii) to respond to the requests for assistance in coordinating development policies and plans in developing member countries; and

(iv) respond to the requests for assistance coordinating development policies and plans of developing member countries.

India's subscription to the Bank's capital stock as on 31st December, 2005 is 6.383 % of all the member countries.

India started borrowing from ADB's Ordinary Capital Resources(OCR) in 1986. During calendar year 2005, ADB Board approved loans of US$ 1217.31 million for 4 projects to India, namely:

Name of the Project	Amount US $ million
1. 2159-Chhattisgarh Irrigation Development	46.110
2. 2166-Tsunami Emergency Assistance (Sector) Project & 005-Tsunami Emergency Assistance Grant	200.000
3. 2226-Kerala Sustainable Development Project	221.200
4. Rural Roads Sector II Project	750.000
Total	**1217.310**

The Bank's lending has been mainly in the Energy, Transport and Communications, Finance, Industry, Irrigation and Social Infrastructure sectors. As of December 31, 2005, the Bank had cumulatively approved 87 Public Sector loans to India amounting to US$ 15.328 billion. With 45 loans closed, the active portfolio comprises 32 loans. Cumulative disbursements till 31.12.2005 were about US$ 7.9 billion. A statement indicating the on-going projects financed/being financed by Asian Development Bank is annexed.

India has contributed US $ 3.0 million in convertible currency (upto the end of 2005) to the Technical Assistance Special Fund (TASF) of the ADB.

The Bank has extended technical assistance to India in addition to loans from its OCR window. The Bank's technical assistance support was US$ 0.6 m in 1988. To end 2005, India has received a cumulative amount of US $ 116.8 million. The technical assistance provided include support for institutional strengthening, effective project implementation and policy reforms as well as for project preparation.

India representation at the Bank : There are 59 Indian Professional Staff working in the Bank out of the total of 884 professional staff. Out of these, 15 are holding senior level positions in the Bank. In addition, India holds the position of Executive Director on the Board of Directors of the Bank - its Constituency comprises India, Bangladesh, Bhutan, Lao PDR, Tajikistan and Afghanistan. The Finance Minister is India's Governor on the Board of Governors of Asian Development Bank and Secretary (Economic Affairs) is the Alternate Governor.

ADB assistance to North-Eastern States

During the year 2005, ADB has approved following Loan/ Technical Assistance for North Eastern States

Loans

1. Rural Roads Sector II (Assam is one of the State)

Technical Assistance

US $ million

1.	North Eastern Region Urban Development (Phase II)	1.00
2.	Development of Road Agencies in the North Eastern State	0.90

ANNEX 1

Total on-going Loans to India (as on 31.12.2005) under their Public Sector Operation to India.

Sl. No.	Loan No.	Project	Original Amount (US$ m)	Date of Approval
		Closed Loans	7872.60	
		Loans Discontinued before effectivity	89.30	
		Loans signed but discontinued	220.00	
		Loans approved but not signed	305.70	
ON-GOING PROJECTS				
1	1759	Housing Finance II-NHB	40.00	21.9.2000
2	1647	Rajasthan Urban Infrastructure Development Project	250.00	03.12.1998
3	1709	Kamataka Urban Development and Coastal Environmental Project	175.00	26.10.1999
4	1720	Urban Environmental Infrastructure Facility(ICICI)	80.00	17.12.1999
5	1764	Power Transmission Sector Project	250.00	6.10.2000
6	1761	Housing Finance II-ICICI	80.00	21.9.2000
7	1804	Gujarat Power Sector Project	200.00	13.12.2000
8	1813	Kolkata Environment Project	250.00	19.12.2000
9	1826	Gujarat Earthquake Rehabilitation and Reconstruction	500.00	26.3.2001
10	1839	Westem Transport Corridor	240.00	20.9.2001
11	1869	Madhya Pradesh Power Sector Devl. Project	200.00	6.12.2001
12	1870	West Bengal Corridor Development	210.00	11.12.2001
13	1871	Private Sector Infrastructure Facility at State Level (IL&FS)	100.00	11.12.2001
14	1968	State Power Sector Refonns Project(FC)	150.00	12.12.2002
15	1944	East-West Corridor Project	320.00	26.11.2002
16	1958	MP Road Sector Development Program	30.00	5.12.2002
17	1959	MP Road Sector Development Project	150.00	5.12.2002
18	1981	Railway Sector improvement Project	313.60	19.11.2002
19	2018	Rural Roads Sector Project	400.00	20.11.2003
20	2029	National Highway Corridor Sector I Project	400.00	4.12.2003
21	2027	Assam Power Sector Development Project	100.00	10.12.2003
22	2046	Urban Water Supply & Environmental Imp. In MP	200.00	12.12.2003
23	2050	Chhattisgarh State Road Development Project	180.00	15.12.2003
24	2152	Power Transmission Sector Project	400.00	21.12.2004
25	2141	Assam Goverenance & Public Res. Manag. Sector Dev. Program.	125.00	16.12.2004
26	2142	Assam Goverenance & Public Res. Manag. Sector Dev. Project	25.00	16.12.2004
27	2151	Multisector Project for Infrastructure Rehabilitation in J&K .	250.00	21.12.2004
28	2154	National Highway Conidor Sector II Project	400.00	21.12.2004
29	2166	Tsunami Energency Assistance Sector Project	200.00	14.4.2005
30	2159	Chhattisgarh Irrigation Project	46.10	29.3.2005
31	2226	Kerala Sustainable Urban Devl. Project	221.20	20.12.2005
32		Rural Roads Sector II Project	750.00	21.12.2005
		Total	**7235.90**	
		Total Assistance	**15328.50**	

6.3 Infrastructure Section

* A major scheme to promote public private partnership (PPP) in various infrastructure sectors such as roads, seaports, airports, railways, convention centres etc with viability gap support from the Government of India was announced in the budget 2005-06, an allocation of Rs. 1500 crore was made under the plan head of Department of Economic Affairs as the contribution from the Government towards viability gap funding. The scheme of Viability Gap Funding (VGF), procedure approval and institutional mechanism for approvals of proposals seeking funding under the scheme has been notified.

* In the Budget Speech of 2005-06, a scheme for setting up of a Special Purpose Vehicle (SPV) for providing long-term debt to infrastructure projects was announced. The scheme for setting up of the SPV was notified and IIFCL, a non banking finance company has since been incorporated. The subject is being dealt with by Banking Division at present.

* An appraisal mechanism on the lines of PIB for the appraisal of PPP projects in the Central Sector has been notified. Under the scheme PPP Appraisal Committee (PPPAC) has been set up for appraisal of PPP projects

* A PPP Cell has been set up within DEA to administer the PPPAC and VGF Scheme.

6.4 POL Branch

Major Policy changes introduced during last year:

* Various Joint Venture Project of ONGC Videsh Limited (OVL) have been approved which will enable OVL to acquire overseas equity oil in confirmed and oil producing blocks abroad. Major investments proposed are in Sudan, Russia (Sakhalin and Kashagan). There are proposals for investments in Brazil, Syria, Bangladesh, Ivory Coast, Ecuador, Iran, Iraq, Myanmar, Vietnam, etc.

* OIL and IOC have been encouraged to invest in overseas oil producing and exploration properties through Special Purpose Vehicles, through the same process as applicable for OVL. OIL-IOC have proposed to invest in major international oil producing and exploration blocks.

Subsidies to North-East: Subsidies to refineries in the North East has been continued on a rationalized basis. Freight Subsidies for will continue to be provided for LPG and kerosene to far-flung areas, including the North Eastern region.

7. FUND BANK DIVISION (INCLUDING UN & PSE BRANCH)

7.1 World Bank Group

India is a member of the four constituents of the World Bank Group viz., International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA) but not of its fifth institution i.e. International Centre for the Settlement of Investment Disputes (ICSID).

International Bank for Reconstruction and Development (IBRD):

The total value of assistance extended by IBRD by way of loans to India has been US$ 26498.762 million as on 31.12.2004. During the period from 01.01.2005 to 31.12.2005, new commitment of US$ 625.00 million were approved making it US$ 27123.762 million in all as on 31.12.2005. The sectors for which IBRD assistance has been provided are roads & highways, energy, urban infrastructure (including water & sanitation), and the financial services sector.

International Development Association (IDA):

The total value of assistance extended by IDA by way of credits to India for which agreements were signed was US$ 28224.83 million as on 31.12.2004. During the period from 01.01.2005 to 31.12.2005, new commitment of US$ 645.00 million were approved making it US$ 28869.83 million in all as on 31.12.2005. The major sectors for which IDA assistance is provided are health, education, agriculture, poverty reduction and post disaster reconstruction projects.

Projects approved in the current year:

(in US $ million)

PROJECT NAME	DATE OF APPROVAL	IBRD COMM AMT	IDA COMM AMT	TOTAL AMT
Emergency Tsunami Reconstruction Project	03.05.2005	0.00	465.00	465.00
Maharashtra Water Sector Improvement Project	23.06.2005	325.00	0.00	325.00
3rd Tamil Nadu Urban Development Project	05.07.2005	300.00	0.00	300.00
Tamil Nadu Empowerment and Poverty Reduction	12.07.2005	0.00	120.00	120.00
Himachal Pradesh Mid-Himalayan Watershed Development Project	13.12.2005	0.00	60.00	60.00
TOTAL		**625.00**	**645.00**	**1270.00**

INDIA AND THE INTERNATIONAL MONETARY FUND (IMF)

The International Monetary Fund (IMF) was established along with the International Bank for Reconstruction and Development (also known as World Bank) at the Conference of 44 nations held at Bretton Woods, New Hampshire, USA in July 1944. IMF is the principal International Monetary Institution established to promote a cooperative and stable global monetary framework. At present, 184 nations are members of the IMF.

India is a founder member of the IMF. India has not taken any financial assistance from the IMF since 1993. Repayment of all the loans taken from International Monetary Fund has been completed on May 31, 2000.

India's current quota in the IMF is SDR (Special Drawing Rights) 4,158.2 million in the total quota of SDR 212 billion, giving it a share holding of 1.961%. India's relative position based on quota is 13th. However, based on voting share, India (together with its constituency countries viz. Bangladesh, Bhutan and Sri Lanka) is ranked 21st.

Article IV Consultations

As part of its mandate for international surveillance under the Articles of Agreement, the IMF conducts what is known as Article IV Consultations to review the economic status of the member countries, normally, once a year. Article IV consultations are generally held in two phases. Latest round of Article IV Consultations for India took place in October 2005.

Participation by India in Financial Transactions Plan (FTP)

India agreed to participate in the Financial Transaction Plan of the IMF in late 2002. Forty-three countries, including India, now participate in FTP. By participation in FTP, India is allowing IMF to encash its' rupee holdings as part of our quota contribution, for hard currency which is then lent to other member countries who are debtors to the IMF.

From 2002 to January 2006, India has made purchases transactions of SDRs 493.230 million and four repurchase transactions of SDRs 351.474 million.

MDRI

In September 2005 India has endorsed Multilateral Debt Relief Initiative (MDRI) at the IMF where it was agreed that all countries with per-capita income of US$380 a year or less (HIPCs and non-HIPCs) will receive MDRI debt relief financed by the IMF's own resources. HIPCs with per capita income above that threshold will receive MDRI relief from bilateral contributions administered by the IMF.

Exogenous Shocks Facility (ESF)

In September 2005 India has endorsed the establishment of the Exogenous Shocks Facility at the IMF. The ESF is meant to provide policy support and financial assistance to low-income countries facing exogenous shocks.

INDIA and the G20

On September 25, 1999 in Washington DC, the Finance Ministers of the Group of Seven (G-7) leading industrialized nations announced the creation of the Group of 20 (G-20). This new international forum of Finance Ministers and Central Bank Governors represents 19 countries, the European Union and the Bretton Woods Institutions (the IMF and World Bank).

In the year 2005, the G-20 Ministerial meeting was held at Hebei, China on 15-16th October 2005. The sessions in this meeting were on 60 Years of Bretton Woods Institutions: Strategic Review and Reform Agenda; Achieving the MDGs: Development Assistance and Innovative Financing Mechanisms; Demographic Challenges and Migration; and Innovation of Development Approaches for Sustained Growth ("G-20 Accord"). Mr. P Chidambaram, Finance Minister of India was the lead speaker in the session on "Demographic Challenges and Migration".

INTERNATIONAL FINANCE CORPORATION (IFC):

India is one of the founder members of the IFC, an affiliate of the World Bank to promote growth in Private Sector and Joint enterprises mostly in manufacturing and infrastructure sectors. The total investment of IFC during current Financial Year (upto 31.12.2005) is US$ 587 million in 19 companies.

INTERNATIONAL FUND FOR AGRICULTURE DEVELOPMENT (IFAD)

India is one of the original members of the IFAD. The Government of India has committed to contribute US$ 15 million (3 equal installments of 5 million each) towards the 6th Replenishment of IFAD Resources. Government of India has made the payment of US$ 10 million as 1st and 2nd Installments to the 6th Replenishment of IFAD till December 2005. Since inception, India has contributed US$ 57 million towards the resources of IFAD till December 2005.

IFAD has assisted in 19 projects in the Agriculture and rural Development Sector with the commitment of US$ 472.97 million. Out of these, 12 projects have already closed.

SETTING UP OF GLOBAL DEVELOPMENT NETWORK (GDN):

The Government approved setting up of Global Development Network in India. GDN supports multidisciplinary research in social sciences and promotes the generation of local knowledge in developing and transition countries. The Agreement 'Establishing the GDN' has been signed between the Government of India and GDN on October 28, 2005.

7.2 UN BRANCH

UNDP Assistance to India

United Nations Development Programme (UNDP) is the largest source of Development Cooperation in the UN System. It derives its funds from voluntary contributions from various donor countries. The overall mission of UNDP is sustainable human development through high priority to poverty alleviation, gender equity and women's empowerment and environmental protection. India's annual contribution to UNDP has been to the extent of US$ 4.5 million.

Country Co-operation Framework

UNDP canalizes its development assistance through Five Year Country Cooperation Framework (CCF), synchronous with India's Five Year Plan. At present, the Country Co-operation Framework - II (CCF-II) is in operation in 4 thematic areas- (i) Promoting Human Development and Gender Equality (ii) Capacity Building for Decentralization (iii) Poverty Eradication and Sustainable Livelihoods (iv) Vulnerability Reduction and Environment Sustainability. The total resource base of this programme is around US$ 190 million. At present there are 21 ongoing projects of US$ 39.26 million under CCF. Of these 4 projects worth US$ 3.30 million have been approved in 2005-06 till date.

7.3 PSE BRANCH
DISINVESTMENT POLICY

The PSE Section examines and offers comments on policy papers (Committee of Secretaries, Core Group of Secretaries on Disinvestment, Cabinet Committee on Economic Affairs) relating to the disinvestment programme of the Government of India. It also represents the Ministry of Finance in the Inter Ministerial discussions on specific issues.

ISSUE OF TAX-FREE BONDS BY MUNICIPAL BODIES

PSE Section processes proposals for issue of Tax Free Bonds by Municipal Bodies to raise resources for capital investment in urban infrastructure. With effect from 2005-06, Government has decided not to place any annual ceiling on the amount that can be raised through such tax-free bonds by urban local bodies.

8. FOREIGN TRADE DIVISION
1. Foreign Investment Unit
FDI policy

Government has put in place a liberal FDI policy and most of the sectors have been placed under the automatic route, except for a small negative list. Amongst others, most of the manufacturing and mining sectors, are on the 100% automatic route with only a few exceptions. Highways and roads, ports, inland waterways and transport, urban infrastructure are also on the 100% automatic route. FDI is also permitted in Telecom, Airports, Civil Aviation and Oil and Gas Pipelines within certain equity limits.

Recent steps for enhancing FDI inflow

In pursuance of Government’s commitment to further facilitate Indian industry, Government has permitted access to FDI through automatic route, except for a small negative list. Latest revisions to further liberalise the FDI regime are as under:

(i) Increase in the FDI limits in “Air Transport Services (Domestic Airlines)” up to 49 per cent through automatic route and up to 100 per cent by non-resident Indians (NRIs) through automatic routes. (No direct or indirect equity participation by foreign airlines is allowed).

(ii) Reviewing the guidelines pertaining to foreign/technical collaborations under automatic route for foreign financial/ technical collaborations with previous ventures/tie-ups in India as per Press Note No. 18 (1998), it has been decided that new proposals for foreign investment/ technical collaborations would henceforth be allowed under the automatic route, subject to sectoral policies as per the following guidelines:

- Prior approval of the Government would be required only in cases where the foreign investor has an existing joint venture for technology transfer/trade mark agreement in the ‘same’ field.

- Even in the above mentioned cases, the approval of the Government would not be required in respect of the following:

  i) Investments to be made by venture capital funds registered with SEBI;or

  ii) Where the existing joint venture investments by either of the parties is less than 3 per cent; or

  iii) Where the existing venture/collaboration is defunct or sick.

  In so far as joint ventures to be entered after the date of Press Note dated January 12, 2005 are concerned, the joint venture agreement may embody a ‘conflict of interest’ clause to safeguard the interest of joint venture partners in the event of one of the partners desiring to set up another joint venture or a wholly owned subsidiary in the ‘same’ field of economic activity.

(iii) FDI ceiling in telecom sector in certain services (such as basic, public mobile radio trunked services (PMRTS), global mobile personal communication service (GMPCS) and other value added services), has been increased from 49 per cent to 74 percent, in February 2005. The total composite foreign holding including but not limited to investment by FIIs, NRI/OCB, FCCB, ADRs, GDRs, convertible preference shares, proportionate foreign investment in Indian promoters/investment companies including their holding companies etc., will not exceed 74 per cent.

(iv) With a view to catalysing investment in townships, housing, built-up infrastructure and construction-development projects as an instrument to generate economic activity, create new employment opportunities and add to the available housing stock and built-up infrastructure, the Government has decided to allow FDI up to 100% under the automatic route in townships, housing, built-up infrastructure and construction-development projects (which would include, but not be restricted to, housing, commercial premises, hotels, resorts, hospitals, educational institutions, recreational facilities, city and regional level infrastructure), subject to the following guidelines:

a. Minimum area to be developed under each project would be as under:

   i. In case of development of serviced housing plots, a minimum land area of 10 hectares

   ii. In case of construction-development projects, a minimum built-up area of 50,000 sq.mts

   iii. In case of a combination project, anyone of the above two conditions would suffice

b. The investment would further be subject to the following conditions:

   i. Minimum capitalization of US$10 million for wholly owned subsidiaries and US$ 5 million for joint ventures with Indian partners. The funds would have to be brought in within six months of commencement of business of the Company.

ii. Original investment cannot be repatriated before a period of three years from completion of minimum capitalization. However, the investor may be permitted to exit earlier with prior approval of the Government through the FIPS.

Detailed guidelines have been issued by DIPP in this regard.

FIU

Liaison office/Branch Office

The procedure for establishment of Branch and Liaison Offices of foreign companies has been further liberalized during the period and Reserve Bank of India was delegated to consider all genuine applications for LO/BO at their end on the sectors in which 100% FDI is allowed under automatic approval route except in cases from certain countries.

2. IC Section

During the year, the policy was further liberalised and Indian corporates/Registered partnership firms have been allowed to investment in entities abroad up to 200% of their net worth and the existing monetary ceiling of US$ 100 million (US$ 10 million for partnership firms) removed.

2. During the year 2005-06 (April-August 2005), 685 approvals were issued for overseas investments worth US$ 912.54 million.

3. During the year, Bilateral Investment Promotion & Protection Agreements were signed/ratified with Hungary and Saudi Arabia and negotiations were conducted with Canada, Mexico, Senegal, Bosnia, Guyana, Slovenia, Romania, Brunei, Slovak Republic, and SAARC countries for finalising and concluding the agreements. So far agreements have been signed with 58 countries of which 48 have been ratified and others are in various stages of ratification.

3. IDEAS Section

GOI supported lines of credit extended to foreign countries

In the year 2005 – 2006 (since April, 2005 till date i.e. 25.01.2006), following proposals for extension of GOI supported lines of credit to be routed through the Exim Bank of India have been approved:

(i) US$ 58 million credit line to Government of Fiji

(ii) US$ 28 million supplier's credit to IRCON/RITES for a project in Mozambique

(iii) US$ 100 million credit line to Government of Sri Lanka

(iv) US$ 30.97 million credit line to Government of Burkina Faso

(v) US$ 60 million credit line to Government of Ghana

(vi) US$ 50 million credit line to Government of Chad

(vii) US$ 27 million credit line to Government of Mali

(viii) US$ 15 million credit line to Government of Equatorial Guinea

(ix) US$ 48 million credit line to Government of Senegal

(x) US$ 26.8 million credit line to Government of Cote d' Ivoire

(xi) US$ 27.7 million credit line to Government of Mali and Government of Senegal

(xii) US$ 20 million credit line to Government of Myanmar

(xiii) US$ 30 million credit line to Government of Honduras

(xiv) US$ 17 million credit line to Government of Niger

(xv) US$ 6.7 million credit line to Government of Gambia

(xvi) US$ 3.03 million credit line to Government of Cambodia

(xvii) US$ 130 million supplier's credit to M/s IRCON for a project in Turkey

(xviii) US$ 33.5 million credit line to Government of Congo

(xix) US$ 25 million credit line to Government of Guinea Bissau

(xx) US$ 350 million credit line to Government of Sudan

(xxi) US$ 41.9 million credit line to Government of Sudan

4. WTO Section

During the year several issues pertaining to financial Services under the WTO agreements on economic cooperation like drawing up draft model Schedules under GATS and negotiations under Trade Agreements, Regional Trade Agreements with other countries covering financial services were taken up. Currently following agreements on economic cooperation are under consideration:

(i) A Comprehensive Economic Cooperation with Singapore which covers areas such as investments, Financial Services etc. has been concluded on 29.06.05.

(ii) An Agreement on South Asian Free Trade Area(SAFTA) was signed among the SAARC members countries in 2004 to strengthen intra-SAARC economic cooperation.The Committee of Experts(COE) on SAFTA consisting of representatives from all Member States, concluded negotiations on the four outstanding issues of SAFTA, namely Rules of Origin, Sensitive Lists, Mechanism for Compensation of Revunue Loss of Least Developed Contracting States(MCRL) and Technical Assistance to LDCSs in agreed areas.

(iii) India-Sri Lanka FTA became operational from March, 2000. It has led to a three-fold growth in volume of trade in a period of four years. Comprehensive Economic Partnership Agreement(CEPA) with Sri Lanka is being negotiated following recommendation of JSG for deepening the existing FTA and covering trade in services etc. It is expected to result in greater integration between the two countries.

The Fourth Round of negotiations on the financial Services Sector under CEPA was held on 30-31st Jan,2006 in Sri Lanka to discuss the finalisation of the Annex on financial services, India's requests to SriLanka and Sri Lankas' requests to India.

(iv) During the visit of Prime Minister to Beijing in June 2003 it was decided to set up a Joint Study Group(JSG) composed of officials and economists to draw up a programme for the comprehensive development of India-China trade, investment and other economic exchanges over the next five years and to examine the feasibility of moving towards a Comprehensive Economic Cooperation Agreement and to make recommendations regarding its scope ,structure and implementation.. The JSG has submitted its report in April, 2005. A Memorandum of Understanding for financial dialogue between the two countries has signed on April, 2005.

(v) The annual meeting of World Economic Forum with India as its focus was held in Devos, Switzerland on 25th to 29th January, 2006. The Indian delegation was led by FM with Commerce Minister and Dy. Chairman of Planning Commission. World Economic forum is an annual event where leaders from Govts and business world meet and exchange ideas and influence the direction of the world economy. Such meetings focus on reforms in countries, macro economic issues, projected strategies for improving economic well-being increasing trade, business environment and competitiveness etc.

5. FIPB Unit

The Foreign Investment Promotion Board (FIPB) has been reconstituted vide OM No. 1/3/2003-FIU dated 18.2.2003 after its transfer from Department of Industrial Policy and Promotion to the Department of Economic Affairs (DEA), Ministry of Finance.

2. The Foreign Investment Promotion Board (FIPB) comprises of the following Core Group of Secretaries to the Government:

(i) Secretary to Government, Department of Economic Affairs, Ministry of Finance – Chairman

(ii) Secretary to Government, Department of Industrial Policy & Promotion, Ministry of commerce & Industry

(iii) Secretary to Government, Department of Commerce, Ministry of Commerce & Industry.

(iv) Secretary to Government, Economic Relations, Ministry of External Affairs

(v) Secretary to Government, Ministry of Overseas Indian Affairs

3. The Board would be able to co-opt other Secretaries to the Government of India and top officials of financial institutions, banks and professional experts of industry and commerce, as and when necessary. In the present constitution, Secretary, Department of Revenue and Secretary, Department of SSI are the co-opted permanent members of the Board.

4. FIPB in Department of Economic Affairs (DEA) is the Secretariat for executing the policy of the Government on Foreign Direct Investment (FDI). All proposals (complete in all respects) received in FIPB Secretariat are considered by the Board and the decision of the Government is conveyed in the prescribed time limit of 30 days.

5. To bring the transparency and make the procedure simpler, the FIPB proposals are put on the website from its receipt in the Secretariat. As soon as the Agenda of the FIPB Meeting is approved by the competent authority, the same is put on the website for the convenience of the investors. Also, as soon as the minutes of the Meeting are approved by the Finance Minister, the details of the approved proposals are put on the website.

6. During the period April – December, 2005, total 12 meetings were held in which 474 proposals were considered and 372 (370+2) proposals were approved, compared to the period April-December 2004, in which 17 meetings were held, 733 proposals were considered and 578 proposals were approved. The FDI inflow involved was approximately Rs. 7398.402 crore in 2005 as against Rs. 6663 crore in 2004.

7. The Government has further liberalized the FDI procedure. Vide Press Note 2 (2005 Series), FDI upto 100% has been allowed under automatic route for development of Township, housing, Building, Infrastructure and construction Projects. Vide Press Note 4 (2005 Series), repatriation of investment by an NRI on non-repatriation basis in automatic route sectors has been allowed under automatic route, if original investment was in convertible currency. Vide Press Note 6 (2005 series); FDI upto 20% has been allowed in FM Radio's broadcasting services.

8. In addition, the Government has reviewed the guidelines notified Vide Press Note 18(1998 series) and issued Press Note 1 (2005 series) vide No. 8/1/2003-FC(Pt.) dated 12th January, 2005 replacing Press Note 18 of 1998.

9. As per the provisions of Press Note No. 1, the new proposals for foreign investment/technical collaboration would henceforth be allowed under the automatic route, subject to sectoral policies, as per the following guidelines:-

i) Prior approval of the Government would be required only in cases where the foreign investor has an existing joint venture in the **'same'** field.

ii) Even in cases where the foreign investor has a joint venture in the **'same'** field prior approval of the Government will not be required; if the investments to be made by Venture Capital Funds registered with the SEBI'; or where in the existing joint-venture investment by either of the parties is less than 3%; or where the existing venture/collaboration is defunct or sick.

6. IA Section

Matters relating to bilateral relations with Russia

The second meeting of Indo-Russian Joint Task Force was held on 26-28th October, 2005 in Moscow to discuss the issues on settlement of Inter-Governmental financial obligations.

The following issues were discussed in the meeting:

(i) Underpayments related to the state credits granted by the former USSR and the Russian Federation to the Government of India (Defence Services and Defence Public Sector Undertakings).

(ii) Prepayment of the outstanding debt to Russia.

(iii) Finalisation of letters of exchange to utilise the accumulated rupee funds towards investment in India.

(iv) Settlement of the payment claims of Indian exporters for deliveries of goods and services to the former USSR and the Russian Federation.

(v) Claim of Russian state-owned company "Moscow Mint" to the Indian State Mint.

Training under the Technical Cooperation Scheme of Colombo Plan

2. Every year 410 slots are earmarked for training of officers from Colombo Plan member countries under the Technical Cooperation Scheme of Colombo Plan. The areas of training covered human resources development, audit and accounts, Commerce, Information Technology, Computer Education, Parliamentary matters, Rural development, Textiles, Water Resources, Medical Sciences, Engineering, Financial Management, Insurance etc.

9. AID ACCOUNTS & AUDIT DIVISION

This Division, which is a part of the External Finance Wing of the Department of Economic Affairs, is responsible for various functions relating to external loans/grants obtained by Government of India from various multilateral and bilateral donors. The functions handled by the Division include interaction with Project Implementing Agencies and Donors, processing of claims received from projects and arranging of draw down of funds from various donors, timely discharge of debt service liability of Government of India towards various loans obtained, maintenance of loan records, external debt statistics, compilation of various management information reports, publication of external assistance brochure on annual basis, and framing of Budget Estimates of aid receipts and debt servicing. In addition, this Division carries out audit of import licences issued to registered exporters for export promotion, by the 40 licensing Offices (including export processing Zones) under DGFT.

Performance/Achievements upto last year.

The external receipts on Government accounts during 2004-2005 in the form of loans/credits were Rs. 13542.70 crores against the Revised Estimates of Rs. 16192.86 crores. Cash Grant Assistance received during 2004-2005 was Rs. 2433.55 crores against RE of Rs. 2257.70 crores.

Performance/Achievements during current financial year.

The drawal of external loan/credits during 2005-06 (upto January 20, 2006) is Rs. 9595.00 crores against RE of Rs. 14540.58 crores and cash grant assistance received upto January 20, 2006 is Rs. 1980.75crores against RE of Rs. 2969.84 crores.

E-Governance

1. Entire work activities of Aid Accounts and Audit Division have been fully computerized since April 1999 based on an on-line system namely "Integrated Computerised System (ICS)". ICS covers all the activities in the loan cycle, preparation of budget for external assistance both for receipt and repayment, preparation of annual external assistance brochure and in maintaining updated CS-DRMS. The ICS has been refined/fine-tuned to suit the user requirement during this year. The on-line system ICS has contributed to enhance functional efficiency of this office, apart from enabling close monitoring of all the work activities. All the officers and staff members of this Division have been trained for functioning under computerised work environment.

2. A comprehensive Web-site on External Assistance is being maintained by this Division under website address http://finmin.nic.in/caaa for the benefit of all Credit Divisions, State Govts., Project Authorities, Donors etc. This web site contains comprehensive information relating to disbursement status Donors-wise, Loan/Credit/Grant-wise, State-wise, Sector-wise on a monthly, quarterly, and yearly basis. The Web-site is updated monthly. Web-site also provides up-to-date status of claim submitted by the Project Implementing Agencies covering the entire claim cycle i.e. from receipt of claim up-to ACA release. Apart from this claim cycle, w.e.f. 01.04.2002 an exclusive detailed report on ACA releases made by PF-I Division is provided on Web-site. Further more disbursed outstanding debt in respect of external sovereign borrowing on various parameters can also be quarried from the web-site. This updated status is made available from the server maintained in this Division. The web-site also contains Key Statistical information relating to overall portfolio of External Assistance apart from disbursed Outstanding Debt and Terms and Condition of External Assistance from different donors. Soft copy of External Assistance Brochure is also available at the web-site for ease of reference by any user.

3. In order to speed up the ACA release to States, e-link with the PF-I and PMU Division of North Block has been established during financial year 2000-2001. Development of e-link has facilitated availability of up-to-date status of ACA release to Projects, which is also now available at the above web-site for enabling in monitoring of release of ACA to States.

4. A Dynamic web-site **aaadmof.gov.in** which would enable any user to generate customised report as per their specific requirements has also been implemented by AAAD. Work is in hand for e-processing of claim for arranging disbursement and e-banking for arranging debt service payments and also for tracking of Audit disallowances recovered by the World Bank from current claims.

5. Work of ISO certification for the Division is also in hand.

Organisational Chart of the Division.

Controller of Aid Accounts & Audit
↓
Joint Controller of Aid Accounts & Audit
↓ ↓ ↓
Dy. CAA&A | Dy. CAA&A | Dy. CAA&A
↓ ↓ ↓
Sr.AO/ Accounts Officer | Sr.AO/ Accounts Officer | Sr.AO/ Accounts Officer

10. ADMINISTRATION DIVISION

I. Functions: Administration Division is responsible for personnel and office administration of the Department and implementation of official language policy of the Government by the Department and its attached/subordinate offices.

II. Staff Strength: The staff strength and the strength of Scheduled Castes (SC) and Scheduled Tribes (ST) employees as on 31-3-2006 is given below:

A. Representation of Scheduled Castes/Scheduled Tribes as on 31-3-2006.

Group	Total No of employees	Permanent	Temporary	No of SC	No of ST
1	2	3	4	5	6
Group "A"					
I) Other than lowest rung of Gr. "A"	238	236	2	26	15
ii) Lowest rung of Gr "A"	118	116	2	18	4
Group "B"	846	840	6	145	43
Group "C"	2302	2284	18	381	165
Group "D" (excluding sweeper)	678	673	5	165	53
Group "D" (sweepers)	227	226	1	163	11
Unclassified/industrial Workmen	14946	14845	101	3044	1435

B. Representation of Ex-servicemen in Group "C" & "D" posts as on 31-3-2006.

Group	Total No of employees	Ex-servicemen
1	2	3
Group "C"	2302	172
Group "D" (excluding Sweeper)	678	77
Group "D" (Sweeper)	227	2
Unclassified/Industrial Workmen	14946	228

C. Position of persons with disability as on 31-3-2006 .

Group	Total No of employees	No of persons with disability		
		VH	HH	OH
1.	2.	3.	4.	5.
Group A	356	0	0	9
Group "B"	846	0	2	5
Group "C"	2302	1	1	36
Group "D"	905	6	2	14
Unclassified/Industrial Workmen	14946	47	82	256

VH : *Visually Handicapped*

HH : *Hearing Handicapped*

OH : *Orthopaedically Handicapped*

III. Grants-in-aid:

During the year 2005-2006 (upto 31-1-2006) the following amounts were sanctioned as grants-in-aid:

S. No.	Name of the grantee institution	Amount released	Purpose
1	Institute for Studies in Industrial Development (ISID)	Rs. 15.00 lakhs	For development of campus of ISID.
2	Indian Economic Association (IEA)	Rs. 5.00 lakhs	For holding 88th Annual Conference at Visakhapatnam.
3	Institute for Human Development (IHD)	Rs.5.00 lakh	For organizing a seminar.
4	Indian Econometric Society (IES)	Rs.1.50 lakhs	For holding 42nd Annual Conference at Amritsar.
5	Indian Council for Research in International Economic Relations (ICRIER)	Rs 15.00 lakhs	For core research activities during the year 2005-2006.
6	National Council of Applied Economic Research (NCAER)	Rs 50.00 lakhs	For meeting part of their administrative expenses during the year 2005-2006.

IV. Complaints Committee on Sexual Harassment of Women Employees

A Complaints Committee has been set up in the Department of Economic Affairs (Main) for considering complaints of women employees. The composition of the Committee is as follows:

i)	Smt Anuradha Prasad Director Department of Economic Affairs	Chairperson
ii)	Dr Jaya Kothai Pillai Secretary General, AIWC	Member (Women re-presentative from NGO)
iii)	Ms Neelam Vohra Under Secretary Department of Economic Affairs	Member
iv)	Under Secretary (Vigilance) Department of Economic Affairs	Member Secretary (ex-officio)

V. Use of Hindi in Official Work

During the year under report, progress made in the implementation of various programmes under the Official Language Policy was kept under constant review. As prescribed, all documents presented to Parliament during the year were bilingual. So also documents specified in Section 3(3) of the Official Language Act 1963, were prepared bilingually. A number of steps were taken in the Department to promote the use of Hindi in official work during the year such as :

i) Officers and employees were nominated to undergo training under Hindi Training Programme in Hindi / Hindi Typing / Hindi Stenography.

ii) As an incentive to do more official work in Hindi, annual competitions were held during September, 2005 and qualifying officials were given cash awards.

iii) A scheme to encourage writing of original books in Hindi on economic subjects is being implemented by the Department.

iv) The Hon'ble Finance Minister in his 'Message' on the auspicious occasion of Hindi Day on 14th September, 2005 appealed to the officers and staff of the Ministry of Finance as well as its subordinate and attached offices, banks, financial institutions and insurance companies to do their official work in Hindi.

v) Hindi workshops were organised with the objective of doing away with the hesitation of officers and employees in using Hindi in their official work.

vi) All efforts were made to motivate staff members, create consciousness amongst them for accelerating the use of Hindi for official purposes.

vii) Sections and attached / subordinate offices of the Department were inspected by teams of officers to see the extent upto which the Official Language Act, the rules made thereunder and the annual programme is being implemented and also the extent upto which orders instructions etc. relating to the official language policy are being complied with.

VI. FINANCE LIBRARY & PUBLICATION SECTION

Finance Library & Publication Section was established in 1945. Finance library functions as the Central Research and Reference Library in the Ministry and caters to the needs of officers of all the three Departments, Ad-hoc Committees and Commissions set up from time to time and research scholars from the various universities in India as well as abroad. This library also serves as the Publications Section of the Ministry, coordinating the procurement and distribution of official documents with the various institutions/individuals on demand in India and abroad.

2. Library has a specialized collection of more than two lakh documents on economic and financial matters and subscribes to more than 800 periodicals/newspapers annually.

3. Finance Library compiles one weekly publication i.e. "Weekly Bulletin" a subject bibliography indexing articles of interest from about 200 journals/newspapers.

11. BILATERAL COOPERATION DIVISION

PROJECT MANAGEMENT UNIT

Project Management Unit monitors the progress of implementation of externally aided projects (EAPs) and handles all foreign training programmes administered by the Department of Economic Affairs, except the project specific training programmes.

2. It undertakes regular review of disbursements in State and Central sectors and deals, inter alia, with measures for adequate provisioning for externally aided projects, advance release of Additional Central Assistance to the States and strengthening of procurement procedure. It is also involved in the co-ordination work relating to the preparation of budget estimates and revised estimates for Externally Aided Projects and plan discussion with Planning Commission.

3. The Government of India has accepted the recommendation of the 12th Finance Commission to pass on external assistance on 'back-to-back' basis to the States. Accordingly, in case of new projects signed on or after April 1, 2005, the external assistance will be passed on 'back-to-back' basis. However, it has been decided to continue releasing of external assistance for ongoing projects in the form of Additional Central Assistance (ACA) in the loan/grant ratio of 10:90 for Special Category States and 70:30 for

Non Special Category States. During 2005-06 the total external assistance disbursed on Govt. & Non-Govt. account was Rs.8922.694 crore (up to November, 2005) against Rs.17147.231 crore during 2004-05 out of which Rs.429.743 crore is on back-to-back basis. As regards the Additional Central Assistance to the States/UTs, Rs.4290.06 crore has been released during 2005-06 as on 16.12.2005 against BE of Rs.10609.33 crore.

4. Policy on bilateral development cooperation: Government of India has reviewed the policy of bilateral development cooperation to affirm the liberalization and reform orientation in India's economic policy. Bilateral development assistance will be accepted from all G-8 countries, namely, U.S.A., U.K., Japan, Germany, France, Italy, Canada and Russian Federation as well as the European Commission. Regarding the countries of the European Union outside the G-8, bilateral development cooperation from such countries which provide a minimum bilateral aid package (of US$ 25 million per annum) to India will be accepted. The other countries not covered by the above policy may consider providing bilateral aid directly to autonomous institutions, universities, NGOs, etc., as before. The policy also entails a simplified procedure to facilitate the flow of bilateral assistance to non-governmental organizations and autonomous institutions.

5. The work relating to foreign training programmes which was earlier handled by various credit Sections, had been centralized and transferred to PMU w.e.f. 15.9.2003. The training programmes are being widely disseminated on a timely basis and are placed on the website of the Ministry of Finance (www.finmin.nic.in).

Details of the bilateral development cooperation with its partner countries are as follows:

UNITED KINGDOM

1. Introduction

UK has been providing bilateral assistance to India since 1958. Since 1975, UK assistance has been received in the form of grants. At present, UK is the largest bilateral development partner providing grants. U.K. assistance is administered by Department for International Development (DFID). DFID's assistance is in various sectors such as education, slum improvement, health and family welfare, etc. The priority states of DFID are Andhra Pradesh, Madhya Pradesh, Orissa and West Bengal.

2. Performance/achievements upto last year

During 2004-05, UK had committed £ 335 million (Rs.2680 crores) through signing of new agreements. UK disbursed a total amount of £ 180.76 (Rs.1466.08 crores) for the ongoing projects through Government of India.

3. Information about the performance/achievements during the year under review

During 2005-06, UK disbursed a total amount of £ 48.121 million (Rs.384.968 crore) upto 30.10.2004 for the ongoing projects. Since such disbursement is in the nature of reimbursement of expenses incurred, 50-60% of total disbursement is accounted for in the last quarter. In all 14 new projects were posed to DFID till 15th December 2005. Fresh commitments for the current financial year (upto 30.11.2005) have been £ 109 million (Rs.872 crores) through signing of new agreements in respect of (i) Health System Development Initiative Programme, West Bengal; and (ii) Strengthening Rural Decentralisation in West Bengal.

4. Policy decision taken

In July, 2004 a policy decision was taken by Government of India on issues relating to external assistance for (a) Structural Adjustment Programmes (SAPs) and (b) Public Sector Enterprises Reform Programmes (PSERP) of State Governments. It was decided that GoI would hereafter not consider proposals for financing of SA Programmes and PSER Programmes of State Governments by DFID and other bilateral development partners. It was also decided that the grant assistance being received from DFID and other bilateral partners would be utilized for financing the projects in the social sectors for meeting the Millennium Development Goals (MDGs).

THE NETHERLANDS

Netherlands has been providing bilateral development assistance to India since 1962-63. Till December 1991, Dutch assistance comprised both loans and grants and was mainly for local cost financing. From 1992, all Dutch assistance has been received as grant.

2. Under the reoriented bilateral development assistance policy enunciated by Government of India in 2003, ODA from the Dutch has been discontinued. Netherlands is not a member of G-8. Being a member of European Union (EU), ODA from the Netherlands can be resumed if it commits minimum bilateral development assistance of $ 25 million per annum to India. The Netherlands has not, so far, responded to our new policy.

3. The Dutch assistance disbursed through Government of India during 2004-2005 and 2005–2006 (till November) has been Rs.30.288 crore and Rs.29.62 crore respectively.

SWITZERLAND

1. Switzerland has been providing bilateral development cooperation assistance to India since 1960.

2. During the year 2004-05 Switzerland disbursed Rs.23.916 Crore (Loan Rs.14.329Crore + Grants Rs.9.587Crore) through Government of India.

ITALY

1. The Italian bilateral development assistance to India started in 1976, and has been mostly in the form of suppliers' credit. Government of Italy has agreed to provide Euro 25.82 million as soft loan to fund the Water Supply and Solid Waste Management Project in 14 selected towns of West Bengal. An agreement has been signed on 10.1.2006 by Department of Economic Affairs with Artigincassa S.p.A (authorized Italian Bank) for a soft loan of Euro 25,822,845 for the project on Water and Sanitation Management in 14 Towns of West Bengal.

2. There was 110 disbursement of Italian assistance tl1fough Government of India during 2003-04, 2004-05 and 200506(up to Dec, 2005).

SWEDEN

India has been a recipient of Swedish Bilateral Development Assistance since 1964. After 1976, Swedish assistance has been in the form of grants.

Disbursement of Swedish Bilateral Development Assistance

There has been no disbursement of Swedish bilateral development assistance through Government of India's budget during the last three years as none of the ongoing Swedish aided projects have funds routed through budget.

Sweden is a non G-8 country. Being an EU country, Sweden will require committing minimum assistance of $ 25 million per annum to consider acceptance by Government of India. Sweden has not so far responded to our new policy.

FEDERAL REPUBLIC OF GERMANY

Germany is one of the larger bilateral development co-operation partners of India. Germany provides both financial and technical assistance to India since 1958. Financial Assistance has been provided mainly as soft loan, composite loans (soft loan combined with commercial loan) as well as grants routed through KfW, the German Government's Development Bank. The technical assistance is provided through the German Technical Cooperation (GTZ) - a fully-owned corporation of German Government.

2. The new priority areas as agreed during the recent Indo-German Negotiations are as under:

(a) Energy

(i) Energy Efficiency

(ii) Renewable Energy including related support for power sector reforms.

(b) Environmental Policy, Protection and Sustainable Use of Natural Resources

(i) Natural Resources Management

(ii) Industrial and Urban Environmental Management including Urban infrastructure

(c) Economic Reforms

Financial Systems and Services development with special focus on

(i) Rural Financing (Micro Financing, cooperative banking, etc.)

(ii) Social Security Financing

(iii) SME Development and Financing

In future, the Indo-German Development Cooperation in the Health Sector will not form a priority area, but activities in the field of Health Care Financing, Social Health Insurance, Prevention of pandemic contagious diseases (HIV/AIDS, Polio) and support to related health sector reforms will continue.

3. For the year 2005, Germany has made fresh commitments of Euro 278.0 million as financial assistance (Euro 8.0 million as soft loan, Euro 10.0 million as grant, Euro 170.0 million as interest-subsidized loan and Euro 90 .0 million as development loan) and Euro 16.50 million for technical assistance as grant. The total disbursement (excluding technical assistance) during 2005-06 (upto December, 2005) was Euro 22.298 million.

The 15th Session of Indo-German Joint Commission on Industrial and Economic Cooperation was held on 4-5 April, 2005 in New Delhi. Indo-German Bilateral Consultations on Development Cooperation was held in New Delhi on 10-11 May, 2005. The Finance Minister visited Germany during 6-9th June 2005 and had fruitful meetings with the German Federal Minister of Finance, German Federal Minister for Economics and Labour, and German Federal Minister for Development Cooperation. The first Energy dialogue was held in Berlin on 28-29th September, 2005. The next meeting of the dialogue took place in New Delhi on 6th December, 2005. Indo-German Annual Negotiations on Development Cooperation were held in New Delhi on 7-9th December, 2005.

EUROPEAN COMMISSION (EC)

The European Commission (EC) has been extending assistance to India since 1976. The EC assistance to India is provided as grant and is currently focused on education, health and environment.

In the initial stages, EC's development assistance was in the form of project financing. However, with the Support of Health & Family Welfare Sector Programme, EC shifted their strategy to Sector-based approach and more recently on Partnership approach with States in order to deploy bulk of their resources in these States for health, education & environment programmes.

Chattisgarh and Rajasthan have been jointly identified for EC's 'State Partnership Programme (SPP)'. As per MoU signed with EC on 25.02.2004 for SPP, EC would provide Euro 160 million with Euro 80 million each for Chattisgarh and Rajasthan. EC assistance under SPP with Chattisgarh will be in the areas of Education, Health and Environment. SPP with Rajasthan will focus on Drinking Water Supply.

There are two on-going central projects in education sector (Sarva Shiksha Abhiyan) and health sector (Health & Family Welfare Development Programme) with EC assistance of Euro 200 million and Euro 240 million respectively.

Disbursement of EC assistance for ongoing development cooperation projects during 2004-05 was Euro 75.12 million. During 2005-06 (upto 31.10.2005), the disbursement has been Euro 43.00 million.

DENMARK

The Danish assistance has been received in the form of grants provided for local cost projects in poverty alleviation and social sector development. The total disbursement of Danish assistance routed through Government of India during the last financial (FY 2004-05) was DKK 20.41 million (Rs.15.68 crores).

Government of India has prepaid DKK 528.236 million (US$ 70.5 million) (approximately) and US$ 1.259 million to Government of Denmark covering the total outstanding amount on Danish loans. India has no further debt liabilities in respect of Denmark.

Government of Denmark and Government of India have agreed to phase out Danish development programme in India by 31-12-2005.

FRANCE

Until 2002, French assistance was available as a mix of Treasury Loan (50%) and Commercial Loan (50%). Since 2002 France has discontinued the commercial loan window. French assistance is now provided as Treasury Loan on following terms:-

- Loans are provided for a period of 23 to 30 years including a
  - grace period of 5 to 10 years.
  - Interest rate : 2.6% to 2.8 % p.a.

The French assistance is tied to goods and services from France.

The total disbursement of French assistance during 2004-05 was Euro 9.05 million (Rs. 51.39 crore). During the current fiscal year Euro 3.20 million (Rs. 17.35 crores) has been disbursed by France upto 30-11-2005.

NORWAY

The Norwegian Bilateral Development Assistance Programme in India began in 1952 with a fishery development in Kerala by way of technical assistance and financial support.

Since 1970, Norwegian assistance has been received as grants for financing technical services and local cost projects, mainly in social and environment sectors.

Norway has disbursed NOK 1.83 million (Rs.1.22 crore) during 2004-05.

NORTH AMERICA (NA) SECTION

The subjects dealt with in the North America (NA) Section are:

(i) Matters relating to US Economic Assistance to India and other territorial matters concerning USA/Canada. Work involves examination and processing of project proposals for United States Agency for International Development (USAID) / Canadian International Development Agency (CIDA) bilateral assistance, appraisal and examination of project agreements, review and monitoring of ongoing and pipeline projections, preparation of external assistance budget for USAID/CIDA assistance and monitoring of bilateral assistance disbursement.

(ii) Matters relating to Indo-US Financial and Economic Forum.

(iii) Matters relating to assistance under US Public Law 480 under which USAID provides agricultural commodities for distribution through various organizations like CARE/ Catholic Relief Services etc.

(iv) Extension of grants by Ford Foundation (FF), International Development Research Center of Canada (IDRC) to Indian Institutions /NGOs.

(v) Sectoral charge relating to Ministry of Information & Broadcasting and Department of Tourism.

UNITED STATES OF AMERICA:

1. USA has been extending economic assistance to India since 1951. US Development Assistance is channelised through US Agency for International Development (USAID). Presently, US Development Assistance is received in the form of grant and is available as project assistance.

2. Assistance disbursed in 2004-2005 is of the order of US$ 36.799 million as compared to US$ 50.19 million disbursed in 2003-04.

3. Under PL-480 (Title II), USA has been donating agricultural commodities as outright grant. USAID has disbursed a total amount of US$ 41.700 million (including freight) in 2004-05 as compared to US$ 55.319 million during 2003-04.

4. DEA is the nodal agency for the Indo-US Financial & Economic Forum, which is being pursued under the overall Indo-U.S. Economic Dialogue, being coordinated by Prime Minister's Office. Under this, regular interaction with the US Government takes place. The last (3rd) meeting of the Forum was held at New Delhi on 9th November 2005, which was co-chaired by the Finance Minister and U.S. Treasury Secretary.

CANADA

Canadian Economic Assistance to India started in 1951. Till October, 2003, the total aid to India has been around C$ 3 billion. The assistance mainly comprises of Development assistance, food and technical assistance. Canadian assistance is channelised through the Canadian International Development Agency (CIDA). The assistance extended by CIDA since 1st April, 1986 is in the form of grant.

The assistance through Govt. budget is negligible. The main objective of CIDA's country policy program for India is to promote economic and social policy reforms in India; to contribute to India's capacity to promote environmentally sound development and to assist in building a stronger economic relationship between the private sectors of both the countries. CIDA has disbursed an amount of C$ 12.621 million in 2004-05 as against the amount of C$ 15.624 million in 2003-04 under projects with MOU with GOI.

In October 2003, the Canadian International Development Agency (CIDA) notified to phase out their current bilateral aid program by 2006-07. The GOI had, in October 2003, prepaid the entire Canadian Loan of C$ 419.941 million, against the loans taken by GOI during 1966-1984.

3. The Government of India has reviewed the policy on bilateral development cooperation to affirm the liberalization and reform orientation in India's economic policy. As per the policy announced on 20.09.04, bilateral development assistance will be accepted from all G-8 countries including Canada, as well as European Commission.

ASSISTANCE FROM FORD FOUNDATION (FF):

The Ford Foundation has been extending grant assistance to various Indian NGOs/institutions since 1952 for implementing projects/studies etc. in the areas of health, rural development, social sector, education, culture etc. 37 project proposals involving total grant of $ 8.292 million have been cleared in 2005-06 (up to September 2005) as compared to 90 project proposals involving total grant of US $ 14.207 million in 2004-05.

Assistance from International Development Research Centre (IDRC) of Canada:

IDRC extends grant assistance to various Government and Non-government organizations for projects in the field of agriculture, food, health and family welfare etc. During 2005-06 (upto December 2005) 12 proposals involving grant assistance of C$ 0.824 million have been cleared as compared to 12 project proposals for the total grant of C$ 1.895 million cleared in 2004-05.

JAPAN

1. Japan provides the largest amount of bilateral development assistance to India. Japanese bilateral loan assistance to India is received through JBIC (Japan Bank for International Cooperation), formerly known as Overseas Economic Cooperation Fund (OECF). Grant Aid and Technical Cooperation are received through JICA (Japan International Cooperation Agency). In the year 2004-05, Govt. of Japan had committed Yen 134,466 million (Rs. 5600 crores approximately) for eight projects which is by far the largest ODA loan commitment of Govt. of Japan to India in a single financial year. This loan of approx. Rs. 5600 crores is 24.7% of all external loan commitments (Rs. 22668.46 crores) in FY 2004-05. This is 19.2% of Japanese global ODA commitments for FY 2004-05.

2. ODA loans are mostly project tied with an interest rate of 1.3% per annum for general projects and 0.75% per annum for environment projects. The tenure of the loans is 30 years for general category and 40 years for environmental category. Priority Sectors for ODA loan are infrastructure sector like Power, Road & Bridges, Water Supply and Sanitation, Urban Transport and Environment & Forest Sector.

3. During 2005-2006 (upto 30.11.2005), disbursement of Japanese ODA to India was Japanese Yen 31.57 billion (about Rs. 1253.22 crores) for 38 projects. Government of Japan have appraised the following ten projects for funding under FY 2005 for their ODA loan package:

1. Orissa Forest Sector Development Project
2. Restoration and Management of Hussain Sagar Lake at Hyderabad
3. Purulia Pumped Storage (Phase-III)
4. Rural Electrification project of REC
5. Solid Waste Management Project in Kolkata Metropolitan Area
6. Bangalore Water Supply Project Phase-II
7. DMRTS – Phase-II
8. Bangalore Metro.
9. Upgradation of Iron ore facility in Vishakhapatnam Port
10. Swan River Flood Management and Integrated Land Development and Watershed Management Project

4. **Grant Aid**

Government of Japan provides grant-in-aid of Yen 3-4 billion approximately per annum. Notes for grant assistance of JY 830 million were signed and exchanged on 4.8.2005 for Project for Improvement of Sardar Vallavbhai Patel Post Graduate Institute of Paediatrics in the State of Orissa.

5. **Technical Cooperation with Japan**

Japan International Cooperation Agency (JICA) implements Project-Type Technical Cooperation in which they send their experts for technical guidance, provide training in Japan to Indian counterparts and provide equipment necessary for the implementation of the project. They also conduct Development Study to examine the feasibility of a project proposal and also cover the formulation of master plan for regional and sectoral development. This facilitates consideration of projects in future either by Japanese loan or other external agency for implementation. JICA also provides individual experts and equipment as required by Indian organizations.

Priority areas for JICA in India are (i) public health and medical care, (ii) agriculture and rural development, (iii) environmental conservation and protection, and (iv) improvement of economic infrastructure.

Note Verbale were exchanged in the month of October, 2005 between Government of India and Government of Japan to formalize the arrangements for implementation of the "Raichak-Kukrahati Bridge over river Hugli including Approach Roads linking NH-41 and NH-117" under Feasibility Study Programme of Government of Japan.

JICA Partnership Programme involving Indian and Japanese NGOs, was started in 2001 and one proposal was cleared in this financial year till 15.12.2005.

6. **Grassroots Funding**

Government of Japan also provides small grant assistance to Indian NGOs under its scheme for "Grant Assistance for Grassroots Projects". Twenty proposals have been cleared by Department of Economic Affairs in this financial year till 15.12.2005.

7. **Green Aid Plan**

Government of Japan also provides technical assistance under Green Aid Plan through their Ministry of Economy, Trade and Industry. The principal policy of this plan is to support the self-help effort of the developing country to cope with the issues in the areas of energy conservation. The areas of cooperation are prevention of water pollution, air pollution, treatment of wastes and recycling and energy conservation and alternative energy source. So far Six Policy Dialogues on Japanese Green Aid Plan have been held. The seventh policy dialogue is expected to be held shortly. Agreement relating to the first ever Project under Clean Development Mechanism (CDM) activity within Green Aid Plan is under finalization.

8. **Japan Overseas Cooperation Volunteers (JOCV) Programme**

Exchange of Note was signed between Department of Economic Affairs and Embassy of Japan on 12.8.2005 to resume the JOCV Programme in India nationals in the fields of Japanese language and judo instructions. The programme is open to all areas/regions of India except the North Eastern States including Sikkim, State of Jammu & Kashmir and areas declared as restricted/protected by Ministry of Home Affairs. Till date, four proposals have been posed to Government of Japan for consideration under the scheme.

AUSTRALIA

Australian Development Assistance to India started in the year 1951. This is channeled through the Australian Agency for International Development (AusAID). The bilateral development cooperation with Australia has been discontinued in pursuance to Government of India's new guidelines on bilateral development cooperation in the year 2003.

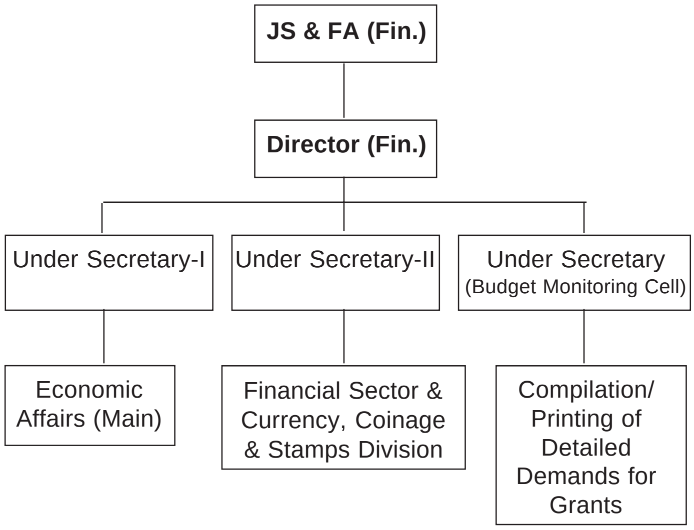
Collaborative research through ACIAR

Council of Scientific and Industrial Research (CSIR), Indian Council of Agricultural Research (ICAR) and National Dairy Development Board (NDDB) have MOUs with Australian Centre for International Agricultural Research (ACIAR) and they have been allowed to continue their cooperation with ACIAR on research collaborative projects, subject to clearance of DEA before signing new project agreements. One proposal namely "Agricultural Trade Liberalization and Domestic market reforms in Indian Agriculture" between National Council for Applied Economic Research (NCAER), New Delhi and the Department of Economics, University of Melbourne with ACIAR funding have been cleared in this financial year till 15.12.2005.

Australian assistance to Indian NGOs

AusAID provided small grant assistance for grassroots projects to be implemented by Indian NGOs in social sector under their South Asia Community Assistance Scheme (SACAS). No proposal was received from Australian High Commission / AusAID under this scheme during this financial year.

12. INTEGRATED FINANCE DIVISION



I. INTEGRATED FINANCE BRANCH

1. Examination and Financial concurrence to all expenditure proposals received from Department of Economic Affairs/ Banking & Insurance Division(including its subordinate/ attached offices such as National Saving Institute, Board of Industrial & Financial Reconstruction,Office of Custodian etc.) and Currency and Coinage Division.
2. Work in regard to Budget, economy instructions, etc., scrutiny and approval of Budget proposals, including preparation of Budget relating to Demands of a) Department of Economic Affairs, b) Currency, Coinage & Stamps Division and c) Payments to Financial Institutions.
3. Vetting of draft financial sanctions including approval of cases of deputation abroad of all officers and staff of the Department of Economic Affairs and advising the administrative divisions on all matters as per the provisions contained in DFPR.
4. Assisting in formulation of schemes involving substantial expenditure from their inception stage; settlement of audit objections, PAC/C&AG draft Audit paragraphs pertaining to the Demands mentioned in para 2 above.
5. Detailed examination/analysis of quarterly expenditure in respect of above mentioned three Grants handle in IFU.

II. BUDGET MONITORING CELL

1. Compilation and printing of Detailed Demands for Grants of the Ministry of Finance.
2. Coordination work relating to Standing Committee of Parliament on Finance relating to Detailed Demands for Grants of Ministry of Finance.
3. Compilation and printing of work relating to statement to be made by Finance Minister in both Houses of Parliament regarding the status of implementation of recommendations of Standing Committee on Finance.
4. Numerical Monitoring progress on settlement of C&AG Audit Paras and PAC Recommendations.
5. Delegation of Financial and Administrative Powers to Executing Agencies.
6. Review of Channels of Submissions and Levels of Disposal.
7. Preparation of Induction Material, Organisational Chart of Department of Economic Affairs.

CHAPTER II

DEPARTMENT OF EXPENDITURE

The business allocated to the Department of Expenditure is carried out through; Establishment Division; Pay Research Unit (PRU); Plan Finance-I Division; Finance Commission Division; Plan Finance-II Division; Staff Inspection Unit; Cost Accounts Branch (CAB); Controller General of Accounts; The Institute ofGovernment Accounts & Finance (INGAF); Central Pension Accounting Office (CPAO); National Institute of Financial Management (NIFM) and the newly created Policy and Coordination Wing.

1. ESTABLISHMENT DIVISION

Establishment Division plays a crucial role in the administration of various financial rules and regulations including service conditions of all Central Government employees and administration of financial rules in respect of non-plan expenditure of the Central Government. The Division deals with matters like determination of salary structure and grades, wage policy determination, revision of pay scales, creation of posts, basic principles of fixation of pay, House Rent Allowance, Travelling/Daily Allowance, Dearness Allowance and various other compensatory allowances in respect of Central Government employees. Various problems relating to pay matters, arising out of the implementation of the recommendations of the 5th Pay Commission or otherwise for Central Government Employees and out of its extension to autonomous bodies substantially financed by the Government and legal/Court matters thereon, received from various Ministries/ Departments were addressed in an appropriate manner.

A Task Force was constituted in September, 2003 for revision of Procurement Norms to ensure greater transparency, competition, fairness and elimination of discretion in procurement of goods by Government. Based on the report submitted by the Task Force, three separate Working Groups have been constituted for preparing the following documents separately for *Goods, Works and Consultancy:-*

(i) Manual of Policies and Procedures
(ii) Bidding Documents
(iii) Guidelines to Purchaser
(iv) Guidelines to Supplier
(v) Draft Standard Contracts for different categories

The working groups have submitted drafts of Manual of Policies and Procedures for Goods, Works and Consultancy, which are being examined/processed.

One of the high points on the calendar of events in DoE was the notification of new/updated "General Financial Rules" from July 1, 2005. These Rules were last revised in a comprehensive manner in 1963 and since then were subjected to a series of isolated amendments. The existing rules as well as various Government decisions thereunder were first reviewed by a Task Force taking into account recent developments in the financial sector, availability of new instruments in banking, insurance, material sourcing, information technology, communications. Accordingly, cumbersome procedures have been simplified, devolving necessary authority, responsibility and direct accountability on the vital functionaries in Government to ensure speedier decision making. The provisions relating to Advances to Government servants (Chapter 14 of GFRs, 1963) have been de-linked from General Financial Rules, 2005 and have been issued as a separate compendium. Revised norms governing re-appropriation of funds are shortly being notified.

10% cut in posts and abolition of posts lying vacant for more than one year is contemplated (vide Department of Personnel and Training O.M. dated 16.5.2001). Further, restrictions have been placed on filling up of direct recruitment vacancies paneling up to 1/3 of direct recruitment vacancies arising in a year subject to the condition that this does not exceed 1% of the total sanctioned strength of the Ministry/Department. So far 2,86,751 posts have been identified for abolition and about 1,23,133 posts have been identified for direct recruitment during 2000-01 to 2005-06, as a result of these instructions. All the posts lying vacant for more than six month in a Ministry/Department and in its attached/subordinate offices are sought to be reviewed so as to identify posts which can be abolished.

In 2004-05, work had commenced on introduction of Composite Payroll Software (CPS) for use in the Administration Wing. The CPS software covers four major functions of DDOs i.e. salary, DA arrears, income tax and GPF accounts maintenance. Necessary training for operation of the software is provided to the staff in cash section. Master data entry work in the software has been completed and the software is under implementation.

2. PAY RESEARCH UNIT (PRU)

The Pay Research Unit was established in 1968 and is mainly responsible for collection, compilation and analysis of data on actual expenditure incurred on pay and various types of allowances as well as data pertaining to the strength of the Central Government Civilian employees and Employees of Union Territory Administrations. This unit brings out an annual publication entitled "Brochure on Pay and Allowances of Central Government Civilian Employees". The Brochure provides statistical information regarding expenditure incurred by the different Ministries/ Departments of Central Government on pay and various types of allowances such as Dearness Allowances, House Rent Allowance, Compensatory (City) Allowance, Overtime Allowance etc. in respect of its regular employees. It also provides information on Ministry/ Department-wise and Group-wise number of sanctioned posts and number of incumbents in position. The Brochure contains information about disparity ratio i.e. the ratio of the maximum to minimum pay of different State Government Employees. In addition the Unit works out financial implications of the proposals of the Government and proposals coming before the National Council of JCM etc.

The Unit brought out the 26th issue of the series of Brochure for the year 2003-04 in September, 2005. The work regarding the Brochure for the year 2004-05 is in progress.

3. PLAN FINANCE – I DIVISION

Plan Finance-I Division deals with the matter relating to finances and plan outlays of the States with close coordination with the Planning Commission, releases funds to States Governments for implementing developmental work in the States, clearance of overdrafts of States. It monitors the Ways & Means and Resources position of States and takes timely action to advise the States to take appropriate measures whenever get into Ways & Means problems. Issues relating to calamity relief to States are also being handled in this division. In this connection, the division formulates the schemes as recommended by the Finance Commission from time to time and releases funds on the advice of the Ministry of Agriculture and Ministry of Home Affairs. This division is also handling the matters relating to Centre-State and Inter-State financial relations and provides inputs for Inter-State Council, Zonal Council and North Eastern Council and deals with miscellaneous issues, which have bearing on States finances such as items relating to the internal security for States, power reform issues, debt/borrowing issues, debt swap schemes and guarantees.

4. STATE PLAN SCHEMES:

Funds are provided to the State Governments for implementation of various components of developmental schemes coming under "State Plan" such as grants as Normal Central Assistacne, grants/loans as Additional Central Assistance for Externally Aided Projects, grants for Border Area Development Programme and grants for Hill Area Development Programme etc. Scheme-wise details of some special programmes are under:

4.1 Pradhan Mantri Gramodaya Yojana (PMGY):

This Scheme was introduced in 2000-01 to provide the funds to State Governments for sustainable human development at the village level. The Scheme is to focus on Drinking Water, Health, Primary Education, Rural Housing, Electrification and Nutrition. The estimates in this regard are included under block grants and block loans for State plan schemes. With effect from 2001-02, the funds under Rural Roads component is provided to the State Government by the Ministry of Rural Development under Pradhan Mantri Gram Sadak Yojana as 100% grant. PMGY envisages allocation of Additional Central Assistance to the States and UTs for selected basic minimum services in order to focus on certain priority areas of the Government. The PMGY Programme builds on the Basic Minimum Services (BMS) Programme as well as strives to mobilize efforts and resources only for selected basic services. PMGY initially had five components viz., Primary Health, Primary Education, Rural Shelter, Rural Drinking Water and Nutrition. Rural Electrification has been added as an additional component (sixth) from the Annual Plan 2001-02.

4.2 National Social Assistance Programme (NSAP) and Annapurna Schemes:

National Social Assistance Programme was launched in August, 1995 as a 100% Centrally Sponsored Scheme with social aim to provide Social assistance benefits to poor households in the case of old age, death of primary bread earner and during maternity. The programme was initiated to supplement the efforts of the State Governments towards achieving the objective of ensuring minimum national level of well being and the Central assistance was in addition to the benefit the States were already providing on Social Protection Scheme. In addition to this, the Annapurna Scheme was launched on 1.4.2000 for those Senior Citizens who were left uncovered earlier. Additional Central Assistance as 100% grant is being released to the State Governments by Ministry of Finance on the recommendation of the Ministry of Rural Development. Scheme can be got implemented by involving Panchayati Raj Instituiions at Panchayat & District level for identification of beneficiaries under the three schemes of NSAP. The disbursal of funds under the scheme can be made through the account of the beneficiary in Banks or post office savings banks or through postal money order. The disbursement can also be made in public meetings such as Gram Sabha meetings in rural areas and by Neighbourhood/Mohalla Committees in urban areas.

4.3 Special Central Assistance/Special Plan Assistance

Apart from Normal Central Assistance and scheme specific Additional Central Assistance, Special Central Assistance/Plan assistance to meet the gap in resources for financing of Annual Plan is also allocated by the Planning Commission to some States especially those falling under special category States. The assistance is not tied with any particular scheme and is released by the Ministry of Finance on the pattern of Normal Central Assistance. Normally, the SCA/SPA allocated by the Planning Commission forms part of Gross Budgetary Support (GBS). However, in exceptional cases, additional allocation is also made with the concurrence of Ministry of Finance.

4.4 Development and Reform Facility (Rashtriya Sam Vikas Yojana)

The Development and Reform Facility later renamed as Rashtriya Sam Vikas Yojana was proposed in Budget 2004-2005 with an outlay of Rs.2500 crore. The main objective of the scheme is to put in place programmes and policies with the joint efforts of the Centre and the States, which would remove barriers to growth, accelerate the development process and improve the quality of life of the people. Three components of the scheme, namely, (i) Special Plan for Bihar; and (ii) Special Plan for the undivided Kalahandi-Bolangir-Koraput (KBK) districts of Orissa and (iii) Backward Districts Initiative for removing the developmental imbalances in selected most backward districts in the States have been approved by the Government.

4.5 Special Plan for Bihar

Under this component, funding will be provided for prioritized sectors, namely, power, rural connectivity, irrigation, integrated watershed development, integrated community based forest management, development schemes for horticulture, dairying, aquaculture, development of remote sensing and other data on GIS platform, etc.

4.6 Special Plan for undivided Kalahandi-Bolangir-Koraput districts of Orissa

The Special Plan focuses on tackling the main problems of drought proofing, livelihood support, connectivity, health, education, etc. as per local priorities. Special Central Assistance as 100% grant is being provided under this scheme.

4.7 Backward Districts Initiative (BDI)

Presently, 147 districts are covered under this component of RSVY. The identification of backward districts within a State has been made on the basis of an index of backwardness comprising four parameters with equal weights to each: (i) value of output per agricultural worker; (ii) agriculture wage rate; (iii) percentage of SC/ST population of the districts and iv) extremist affected districts in various States of the country. The main objectives of the scheme are to address the problems of low agricultural productivity, unemployment, to combat backwardness in the districts facing extremist activities over a period of time, and to fill critical gaps in physical and social infrastructure. Under the scheme Rs.45 crore has been allocated to each of the backward district in the Tenth Plan (2002-07). The total amount is to be released in three years i.e. @ Rs.15 crore each year to each of the identified backward district. The funds under the scheme are provided under ACA as 100% grant.

4.8 National Slum Development Programme (NSDP)

National Slum Development Programme (NSDP) was launched at the national level in August 1996 with a view to ameliorate the living conditions of the slum dwellers.Additional Central Assistance was provided under this programme in the State Plans to all States/UTs for development of their urban slums. The objective of this programme was to provide adequate and satisfactory water supply, sanitation, primary education facilities, health care, pre-primary and adult literacy and non-formal education facilities etc. The scheme also envisaged provision of housing, community empowerment, garbage and solid waste management as well as environmental improvement and convergence of different social sector programmes through creation of sustainable support systems. The focus is on the development of community infrastructure, provision of shelter, empowerment of urban poor women training, skill upgradation and advocacy and involvement of Non-Government Organizations (NGOs), Community Block Offices (CBOs), private institutions and other bodies. Under this scheme, Planning Commission allocates the funds to State/UTs annually and Ministry of Finance and Ministry of Home Affairs release it to States' and UTs' Finance Departments under their respective Annual Plan. The funds are transferred as 70% loan and 30% grant to the States other than the eleven special category States, who receive the assistance as 90% grant 10% loan. The State Finance Departments were to release the Additional Central Assistance to State Nodal Agencies against their budget provision on being approached by their respective nodal agencies. Funds are released, on the basis of inputs received from Planning Commission and other Central Ministries. Departmental actual expenditure for the previous year received from the States are processed for computing of cut from current year's allocation on account of shortfall in plan expenditure.

4.9 Accelerated Irrigation Benefits Programme (AIBP)

Accelerated Irrigation Benefits Programme (AIBP) was launched during 1996-97 to provide Central Loan Assistance (CLA) to States for accelerating the implementation of large and multipurpose projects, where substantial progress had been made but was beyond the resource capability of the States. Under multipurpose projects category, only major and medium irritation projects which are in advance stage of construction are allowed under the scheme. Special relaxation is allowed for Surface Minor Irrigation schemes in Special Category States and KBK Districts of Orissa. The pattern of sharing of expenditure for Special Category States and KBK District of Orissa, Central Assistance under AIBP is 1:0 (Centre:State) for "Reforming States" and 3:1 (Centre:State) for other States. For General Category States, the sharing pattern is 3:1 (Centre:State) for "Reforming States" and 2:1 (Centre:State) for other States

Till March, 2004, total Central loan assistance of Rs.14,700 crore had been made available to States under the scheme. During the year 2004-05, grant component was also introduced under the scheme and releases were made as per NCA pattern. However, as per the recommendations of TFC, the loan component has been discontinued w.e.f. 1.4.2005 and the States have been asked to raise the loan requirement of funds under the scheme from the market.

4.10 Accelerated Power Development Programme (APDRP)

The scheme was approved in the year 2000-01 and was named Accelerated Power Development Programme (APDP). The Scheme envisaged mainly to finance projects relating to Renovation & Modernization/Life Extension/Upgrading of old power plants both thermal and hydel; and to upgrade sub-transmission & distribution network. (below 33 KV or 66 KV) including energy accounting & metering. The funding of projects was in the ratio of 90% grant & 10% loan to special category States and 50% grant & 50% loan for non-special category States. The non-special category States were to manage 50% of their share of project cost though internal resources or by way of loans from PFC/REC/FIs/Suppliers Credit.

In June, 2003 the Govt. had approved modification of APDP Scheme and renamed the ongoing scheme as Accelerated Power Development Reforms Programme (APDRP). The main focus of modified scheme is Upgradation of Sub-Transmission and Distribution in densely electrified zones in the urban & industrialized areas and improvement in commercial viability of State Electricity Boards.

(a) Investment Component:- Central budgetary support is given for strengthening and upgradation of the sub-transmission and distribution system. Special Category States get 90% of approved expenditure as Central grants while other States get 50% grant. Remaining resources have to be raised by the States including market borrowing.

(b) Incentive Component:- Grants are given to States to the extent of 50% of the actual reduction in cash loss (from the base year of 2000-01) by SEBs/Utilities. Losses are calculated as net of subsidy and revenue will be calculated on net realization basis only. The accounts would be audited through CAG or relevant statutory auditor for arriving at a total loss. The incentive grant is to be utilized in improvement of Power Sector alone.

4.11 Jawaharlal Nehru National Urban Renewal Mission (JNNURM)

To provide focused attention to integrated development of infrastructural services in identified cities, "Jawaharlal Nehru National Urban Renewal Mission (JNNURM)" has been launched by the Hon'ble Prime Minister of India on 3rd December, 2005. Ministry of Urban Development will be implementing Sub Mission-I on Urban Infrastructure and Governance of the Mission; and Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT). The Mission aims to secure

- effective linkages between asset creation and asset management so that the infrastructural services created in the cities are not only maintained efficiently but also become self-sustaining over time.
- Ensure adequate investment of funds to fulfill deficiencies in the urban infrastructural services.
- Planned development of identified cities including peri-urban areas, out growths, urban corridors, so that urbanization takes place in a dispersed manner.
- Scale up delivery of civic amenities and provision of utilities with emphasis on universal access to urban poor.
- To take up urban renewal programme, i.e., re-development of inner (old) cities area to reduce congestion.

The duration of the Mission would be seven years beginning from 2005-06. During this period, the Mission will seek to ensure sustainable development of select cities. An evaluation of the experience of implementation of the Mission would be undertaken before the commencement of Eleventh Five-Year Plan and if necessary, the programme calibrated suitably. Additional Central assistance under the scheme will be released by Ministry of Finance in the form of 100% grant.

4.12 Debt swap scheme

In order to help the States to address the problem of mounting burden of interest, GOI announced the Debt Swap Scheme in the year 2002. The Debt-Swap Scheme impacted on the interest burden through the gradual conversion of the high cost debt into a low cost debt. State Governments' investment in small savings securities and additional open market borrowings were identified as two borrowing sources for swapping the high cost Central government loans outstanding against the States. The scheme has concluded on 31st March, 2005. Following are salient points in respect of Debt Swap:-

- Out of the outstanding high cost loan of 13% and above of Rs.1,14,316.59 crore (as 31.3.2002) Rs.1,02,033.59 crore has been swapped till 31st March,2005. Total amount repaid is of the order of Rs.1,15,126.50 crore, which includes Rs.13,092.91 crore as normal repayments made by States and Rs.9,050.21 crore allowed to States to swap loans bearing rate of interest of less than 13%.
- Swap of high cost debt of 13% and above has since been completed for 22 States out of 28 States. i.e. Andhra Pradesh, Arunachal Pradesh, Bihar, Chhattisgarh, Goa, Gujarat, Haryana, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Manipur, Maharashtra, Meghalaya, Mizoram, Nagaland, Punjab, Rajasthan, Sikkim, Tripura, Tamil Nadu and Uttaranchal.
- States that have completed debt swap, have been permitted, on request, to utilize 40% of small savings loans for swapping outstanding GoI debt of less than 13%.
- For the remaining States i.e. in which the swap of high cost debt is still not complete, i.e. Assam, Himachal Pradesh, J&K, Orissa, Uttar Pradesh and West Bengal, action as per recommendations of XII Finance Commission is to be taken.

5. FINANCE COMMISSION DIVISION

The Finance Commission Division is concerned with the implementation of the recommendations of the Finance Commission. The 12th Finance Commission was constituted by the President on 1st November 2002 under the Chairmanship of Dr. C. Rangarajan. The Commission submitted its report for 2005-10, covering all aspects of its original mandate on December 17. 2004. The main report along with explanatory memorandum was laid on the Table of both the Houses of Parliament on 26th February 2005. The Government accepted the recommendations of the Commission regarding devolution of shares of Central, Taxes and Duties, Grants in Aid to cover non plan gap on revenue account, Grants-in-Aid for education, health, maintenance of roads and bridges and public buildings, maintenance of forest, heritage conservation and State specific needs, grants to States for financing local bodies, financing of calamity relief expenditure, scheme of debt relief to States.

Twelfth Finance Commission Recommendations

Major highlights of the recommendations that cover the period 2005-10 are:-

- Twelfth Finance Commission (TFC) has recommended that 30.5% of the divisible pool of gross tax revenue of the Central Government shall be distributed amongst States during 2005-10 (as against 29.5% during 2000-05).
- TFC has recommended Rs.1,42,640 crore as grants-in-aid during 2005-10, as against Rs.58,588 crore during 2000-05.
- Under debt consolidation, the Central loan to States contracted till 31.03.2004 and outstanding on 31.03.2005 (amounting to Rs.1,28,795 crore) may be consolidated and rescheduled for a fresh term of 20 years (resulting in repayment in 20 equal installments), and an interest rate of 7.5% be charged on them. This will be subject to the State enacting the fiscal responsibility legislation and will take effect prospectively from the year in which such legislation is enacted.
- Cumulative relief on interest payments and lower repayment upon consolidation, reschedulement and lowering of interest rate to 7.5% on during the award period for all the States put together, works out to Rs.21,276 crore in interest payments and Rs.11,929 crore in repayments.
- Under the debt write-off scheme, the repayments due from 2005-06 to 2009-10 on central loans contracted up-to 31.3.04 and recommended to be consolidated will be eligible for write off. The quantum of write off of repayment will be linked to the absolute amount by which the revenue deficit is reduced in each successive year during the award period. Total amount eligible for write-off for all States over five years period is Rs.32198.69 crore. The enactment of the fiscal responsibility legislation would be a necessary pre-condition for availing the debt relief under this scheme also with the benefit accruing prospectively.
- Till December,2005, proposals of 12 States for consolidation of Central Government loans as per recommendations of TFC has been accepted and orders for effecting the necessary credit/debit to States' accounts have been issued.
- Twelfth Finance Commission in its report recommended that system of imposing 70:30 ratio between loans and grants in case of Non - Special Category States and 10:90 ratio between loan and grant in case of Special Category Sates for extending Plan Assistance should be done away with. Instead, the Planning Commission should confine it self to extending plan grants to the States and leave it to the States to decide how much they wish to borrow and from whom i.e. from the Centre or from open market. This has been effective from 01.04.2005. If some fiscally week States are unable to raise funds from the market, the Centre could borrow for the purpose of on lending to such States with the condition that the interest rates should remain aligned to the marginal cost of borrowing for the center. The recommendation was accepted by the GOI and consequently no provision for the loan component of States was made in BE 2005-06.

5.1 Devolution of shares in Central Taxes and Duties:

As per the Constitution, a prescribed percentage of net receipts of all Central Taxes (except Union surcharge, cess levied for specific purpose under any law made by Parliament and the Duties referred to an Article 268 and 269 is to be assigned to the States within which that tax is leviable in that year and distributed among those States for the period of five years commencing from 1st April 2005, the Commission has recommended that 30.5% of the net receipts of shareable Central Taxes may be distributed among all such States where in central tax is leviable.

5.2 Grants-in-Aid to States to cover the Non-Plan Gap on Revenue Account:

TFC has assessed non-plan revenue deficit of the States normative basis to ensure that deficiency in fiscal capacity is corrected by the States, but inadequate revenue effort or excessive expenditure is not encouraged. The 12th Finance Commission recommended non-plan revenue deficit grant amounting to Rs.56,855.87 crore to 15 States equal to the amount of deficit assessed for each year during the period 2005-10. The revenue deficit grant recommended for 2005-06 is Rs.15,091.86 crore to be released to the States during the current year. Non plan revenue deficit grant of Rs.12,711.29 crore has been released up to 2.1.2006.

5.3 Grants in Aid for Education and Health Sector :

TFC has recommended grants to States, using equalisation principle on the expenditure side, for education and health. The States adjusted for their expenditure preference, spending less than group average have been provided grants-in-aid to cover 15 percent of the distance. The Finance Commission has recommended grants for the period 2005-10 under education sector to eight States amounting to Rs.10,171.65 crore and under health sector to seven States amounting to Rs.5,887.08 crore. These Grants-in-Aid are released subject to the fulfillment of conditions laid down by the 12th Finance Commission. Under Education sector grants amounting to Rs.1,247.33 crore and health sector grants amounting to Rs.518.30 crore were released to States up to 2.1.2006.

5.4 Grants for maintenance of roads and bridges, public buildings and forests :

The 12th Finance Commission recommended grants separately for maintenance of roads and bridges, maintenance of buildings and forests as under :

(i) Adopting the norms for plains and hilly areas furnished by the Ministry of Road, Transport and Highways for maintenance of roads and bridges and after applying adjustment factors, a grant of Rs.15,000 crore has been recommended for maintenance of roads and bridges for the period 2006-10.

(ii) An amount of Rs.5,000 crore is recommended as grants for maintenance of public Buildings from 2006-10.

(iii) For maintenance of forests, grant of Rs.1,000 crore spread over the award period 2005-10 has been recommended by the Commission. Grant recommended for 2005-06 is Rs.200 crore. Under this sector an amount of Rs.104.50 crore has been released up to 2nd January 2006. The maintenance grants are an additionality over and above normal maintenance expenditure to be incurred by the State. These grants are to be released and spent in accordance with certain conditionalities specified by the Commission.

5.5 Grants for Heritage Conservation :

For heritage conservation, the Finance Commission has recommended grant of Rs.625 crore for an award period of 2005-10. This grant will be used for preservation and protection of historical monuments, archeological sites, public libraries, museums and archives and also for improving tourist infrastructure to facilitate visit to these sites.

5.6 Grants for specific needs :

The grants recommended by the 12th Finance Commission for specific needs of the States is on the pattern of the grant recommended by the 11th Finance Commission for the special problems of the States. The 12th Finance Commisson has recommended an amount of Rs.7,100 crore as grants for States specific needs.

5.7 Grants for Local Bodies :

The 12th Finance Commission has recommended an amount of Rs.25,000 crore for the period 2005-10 as Grants-in-Aid to augment the consolidated funds of the States to supplement the resources of the municipalities and the panchayats out of this Rs.20,000 crore is for PRIs and Rs.5,000 crore is for Urban Local Bodies. Grant recommended for 2005-06 is Rs.5,000 crore. A total amount of Rs.2,262.45 crore has been released up to 3rd January 2006.

5.8 Calamity Relief Fund and National Calamity Contingency Fund

The 12th Finance Commission has recommended the continuation of the scheme of calamity relief fund in its present form with contribution from the Centre and the States in the ratio of 75: 25. The size of the CRF for the period 2005-10 is worked out at Rs.21,333.33 crore. The Commission has also recommended continuation of the scheme of NCCF in its present form with core corpus of Rs.500 crore. The outgo from the fund may continue to be replenished by way of collection of National Calamity Contingent Duty and levy of special surcharges. Out of the Centre's share of CRF of Rs.2,958.32 crore for the year 2005-06 a sum of Rs.1,923.42 crore was released to the States upto 6.1.2006. Out of the NCCF, central assistance of Rs.2,861.16 crore has been released to the States during the year 2005-06 (up to 21.12.2005), towards calamities of rare severity. In addition to the release from NCCF so far, Rs.200.28 crore has also been released to Jammu & Kashmir in the wake of Earthquake in the State. This amount has been released as advance share of Central Taxes and Duties and NCA to be adjusted against release of NCCF.

5.9 Fiscal Reform Facility to the States :

The Twelfth Finance Commission has recommended a Debt consolidation and waiver scheme for States. A two-pronged approach, as detailed below, has been recommended:

- A general scheme of debt relief applicable to all States, prospectively, from the year in which they enact Fiscal Responsibility Legislation (FRL). The above scheme gets into operation through a process of consolidation of central loans contracted by States till 31.3.2004 and outstanding on 31.3.2005 for a fresh term of 20 years at a reduced interest rate of 7.5%. TFC has estimated that the debt relief, after consolidation of Central loans, during its award period (2005-10) for all States put together would amount to Rs.21,276 crore, in interest payments and Rs.11,929 crore in repayments.
- A Central debt write-off scheme (after consolidation of central loans) linked to fiscal performance, subject to following conditions: (i) Enactment of FRL (ii) Reduction of Revenue Deficit/Revenue Surplus, every year starting from 2004-05, when compared to the average of preceding 3 years (i.e., 2001-02. 2002-03 & 2003-04), which forms the base year 2003-04. In the process, if revenue deficit is eliminated completely by 2008-09, the State gets full benefit of the waiver, Reduction in Revenue Deficit should be equal to the at least the interest rate relief on account of consolidation, and Containing Fiscal Deficit at the 2004-05 level in succeeding years also. Under this scheme, repayments due from 2005-06 to 2009-10 on central loans contracted up to 31.03.2004, which has been recommended for consolidation, will be eligible for write-off. The quantum of write-off will be linked to the absolute amount by which revenue deficit is reduced in each successive years, during the award period. Separate treatment for Revenue Surplus States and Revenue deficit States has been recommended.

Based on these recommendations, detailed guidelines have been formulated and have been circulated to States. 16 States have submitted their Fiscal Responsibility & Budget Management Acts. A Central Monitoring Committee, set up for this purpose, has recommended consolidation of the outstanding debt of 13 State Governments, so far.

As a measure to further improve fiscal transparency, the PF-I Division and O/o Controller of Accounts (Finance) have collaborated on "State Loan Data Release Initiative". A web enabled module was developed to enable dissemination of information on releases to States made by the Department, the repayments made by the States, defaults and outstanding balances in respect of loans, grants and investments. Each State Government is now enabled to view:

- Its entire portfolio of Ministry of Finance transfers on the website, including detailed reports on the monthly releases made to them (scheme-wise/State-wise).
- Scheduled repayments for the entire year (month-wise/ loan-wise).
- Actual repayments vis-à-vis their scheduled repayments.
- Prepayments effected by them under the Debt Swap Scheme.
- Outstanding balances (rate of interest-wise/loan-wise) on a year to year basis.
- Download, in PDF format, copies of sanctions and IG Advices.

Fully verified and reconciled data is available on the website application from the financial year 2004-05 onwards.

6. PLAN FINANCE – II DIVISION

Plan Finance II Division is primarily concerned with matters relating to the Central Plan. PF.II Division serves as a window within the Finance Ministry, which has an overview of the entire canvas of development activity of the Central Government, both at the project level and sectoral policy level. In respect of development schemes and projects, the focus has been on improving the quality of development expenditure through better project formulation, emphasis on outputs, deliverables, impact assessment, projectisation (Mission approach) and convergence.

Guidelines for Formulation, Appraisal and Approval of Government funded Plan schemes/projects have been issued vide O.M No.1(2)/PF.II/03 dated 7.5.2003. According to these guidelines, which are in force w.e.f 1.7.2003, Ministries/Departments are required to prepare Feasibility Report (FR) for obtaining 'in-principle' approval of Planning Commission and a Detailed Project Report(DPR) for appraisal of the scheme/project in respect of all Plan schemes/projects costing Rs.50 crore or more.

Plan Finance II is the Secretariat for the Public Investment Board (PIB). The PIB considers investment proposals of Central Government Ministries in regard to their Public Sector Undertakings. Under the existing guidelines, Central Sector Projects costing Rs.200 crore and above are considered by PIB. Secretary (Expenditure) is the Chairman of the PIB and Joint Secretary (Plan Finance II) acts as the Secretary to the Board. Plan Finance II Division is also the focal point for delegation of financial powers to Expenditure Finance Committees (EFCs) and Standing Finance Committees (SFCs).

During the period 1.1.2005 to 31.12.2005, 43 EFC meetings chaired by Secretary (E) considered Plan investment proposals/ schemes of various Ministries/Departments costing Rs.68,111.86 crore. Also, 51 meetings of PIB were held and projects (including RCEs) with a capital outlay of Rs.168,068.33 crore were recommended for obtaining CCEA approval. The Ministry/ Department wise position of projects considered by PIB is as below:

Ministry/Department	No.	Amount (Rs.in crore)
M/o Power	15	27,152.63
D/o Coal	18	13,443.49
M/o Shipping	4	4,405.40
M/o Civil Aviation	2	38,149.07
M/o Petroleum & N. G.	2	6,549.74
D/o Heavy Industry	1	699.00
D/o Road Transport & Highways	2	64,725.00
M/o Urban Development	1	4,685.00
M/o Steel	1	8,259.00
Total:	**48**	**168,068.33**

Based on the exercise taken up in December, 2005, for estimation of Internal Resources (IR) and Extra Budgetary Resources (EBR) for financing the Annual Plan of the Central Public Sector Undertakings, the likely availability of I&EBR of CPSUs for 2005-2006(RE) works out to Rs.158,742.85 crore. Similarly, the I&EBR assessed for Annual Plan 2006-07(BE) is Rs.176,909.35 crore. Planning Commission decides the extent to which the IR/ I&EBR will be utilised for funding the Plan.

Plan Finance II Division also deals with issues relating to Food, Fertilizer and Petroleum subsidies and financial restructuring of central PSUs in consultation with Controller General of Accounts.

7. STAFF INSPECTION UNIT (SIU)

The Staff Inspection Unit (SIU) was set up in 1964 with the objective of securing economy in the staffing of Government organizations consistent with administrative efficiency and evolving performance standards and work norms. The Scientific and Technical Organisations are not within the purview of the SIU but a Committee constituted by the Head of Department, with a representative from SIU as a Core Member, conducts staffing studies of such organisations.

In the changed scenario and keeping in view the Government emphasis on better governance and improved delivery of services, the role of SIU has been re-defined. The SIU has been positioned to act as catalyst in assisting the line Ministries and Autonomous Organizations in improving their organizational effectiveness. As per the new mandate, SIU would now conduct the studies of Organizational Analysis primarily to cover the areas of Organizational System, Financial Management System, Delivery System, Client-Customer satisfaction, Employees concerns etc. and to suggest ideal organizational structure, re-engineering of processes, optimum utilization of resources and overcome the delays besides exploring the possibilities of outsourcing some of the activities with a view to achieve enhanced output/effectiveness with the minimum expenditure.

During the year 2005, SIU issued 16 reports covering 14,950 sanctioned posts and demand for creation of 682 additional posts in 16 offices which include two Norm Studies on Passport Offices in India and Consular and Visa activities being performed in Indian Missions/Posts abroad. The staffing studies resulted in identifying 4025 surplus posts out of the sanctioned strength of 14950 posts. SIU also did not find justification for creation of 285 additional posts. The studies during the year have resulted in an economy of Rs.42.94 crore per annum. In addition, provisional reports on 10 staffing studies with a total coverage of 10659 posts and 1 Norm Study were also issued during the year.

As per the new role, the SIU has undertaken the study of Institutional Reforms/Organisational Re-structuring of the Department of Expenditure with a view to recommend ideal organizational structure, re-engineering of processes and optimum utilization of resources etc. A similar study of the Ministry of External Affairs has also been planned for which MEA has already initiated action in the local Passport Offices in the country where SIU would be associating as a facilitator.

8. COST ACCOUNTS BRANCH (CAB)

The Cost Accounts Branch is a professional agency, staffed by Cost/Chartered Accountants only who are members of the Indian Cost Accounts Service, one of the six Central Accounting services of the country. It was initially set up as an independent agency to verify the cost of production and to determine the fair selling price for all government purchases including defence purchases. Now scope of its expert advice covers all Central Ministries and Departments, State Governments and Public Sector Undertakings in areas of pricing, developing costing systems, costing norms and standards, cost management and cost reduction, resolving inter ministerial disputes on pricing, policy matters on pricing and all allied issues.

Chief Adviser Cost Office (CAB) as a repository of expertise in Cost and Management Accounting matters over the years had emerged as a prime professional agency in dealing with matters relating to Financial Management, Capital Restructuring, appraisal of capital intensive projects, Rehabilitation Projects, profitability projections, application of modern management tools towards evolving and effecting sound working capital management policies etc. The role of Branch has got enlarged post liberalisation period when cost efficiency studies and pricing under dynamic situations have become star areas of intervention besides diverse references are emerging from various Ministries/Departments arising out of problems faced by them in their day to day working. Chief Advisor Cost Office (CAB) is also a nodal agency for carrying out studies in the area of user charges in addition to normal studies which are referred by concerned Ministries/Departments in the area relating to price, norms, cost efficiency determination etc. Five studies in the areas of user charges have been referred by Department of Economic Affairs as part of Fiscal Policy Strategy Implementation aimed at improving non-tax revenue receipts of the Government of India and develop cost consciousness among the Ministries/ Departments providing such services. These studies not only involve determining present costs but also aim at exploring alternatives and suggesting ways and means for reducing/ containing costs/deficits.

8.1 Studies identified by Department of Economic Affairs in the areas of User Charges

- Export/Import Licence application fee, receipts from EPZs, entry fee for Trade Fairs – Ministry of Commerce.
- Meteorological Charges – Department of Science and Technology.
- Fee under MRTP Act, Patent Fees, Fees for registration of Trademarks – Department of Industrial Policy and Promotion.
- Fee and other receipts realized under the Companies Act, regulation of Jt. Stock companies, other receipts of Deptt. of Company Affairs – Department of Company Affairs.
- Passport and Visa Fees – Ministry of External Affairs

In addition, studies relating to postal deficit and fees and other charges collected by Indira Gandhi National Open University (IGNOU) are also in progress.

As the Head of the Indian Cost Accounts Service (ICAS), Chief Adviser (Cost) also deals with matters relating to the cadre administration, including training requirements of the officers for continuous up-gradation of their knowledge and skills.

The major areas of professional functions of Chief Adviser Cost Office (CAB) are as under: -

(i) Unit specific as well as industry level studies such as Sugar, Print Media, Chemicals, Textiles, Fertilizers, Petroleum products for determining cost/fair prices and making recommendations;
(ii) Norms for conversion cost, packing charges and process loss study to facilitate fixation of prices of formulations, warship building norms for Hull etc;
(iii) System related and Tariff related studies;
(iv) Input-output norms for export, subsidy related studies and valuation of services;
(v) Time and cost overruns, Arbitration cases, efficiency and competitiveness studies;
(vi) User charges in the field of Health, Education, Post and other areas;
(vii) Representation on various committees connected with cost, pricing, purchases, disinvestment, cost audit, competitiveness and other related functions.
(viii) Assisting all Central Government Ministries/Departments/ Organizations in solving complex Price/Cost related issues.
(ix) Assisting State Governments/Union Territories in fixing fair prices for various services/products.
(x) Arbitrator in resolving pricing disputes.
(xi) Functioning as Chairman/members of Committees constituted by Government related to Cost/Financial matters.
(xii) Examination of claims between Government Departments/Public Sector Undertakings arising out of purchase contracts regular/yearly/one time.
(xiii) Determining prices of products and services supplied to Government in order to enable Government Departments to negotiate the prices with the supplying organizations.
(xiv) Recommending fair prices/rates for products and services and also to determine reasonableness of prices charged, duty structure etc.
(xv) Verification of escalation claims arising out of contracts between Government Departments and suppliers.
(xvi) Cost accounting systems for departmental undertakings/ Autonomous bodies.
(xvii) Cost and Performance audit of industrial undertaking.
(xviii) Concurrent audit of cost/price determined by Ministries/ Departments.
(xix) Valuation of assets and liabilities of business taken over; and
(xx) Shares of public sector undertakings.

During the period January 2005 to December 2005, 46 new references for studies from various Ministries/Departments were received and 102 studies were completed by the Chief Adviser Cost Office. The studies completed during the year varied widely in nature and may be broadly categorized under the following heads:

(I) Industry-wise Studies

- **Pharmaceutical Industry** Determination of norms for Conversion Cost, Packing Charges and Process Loss to facilitate fixation of prices of Drug formulations under DPCO 1995. The job entailed detailed analysis of cost profiles, production process, nature of cost – fixed, variable, semi-variable, packing process etc. of 41 manufacturing units spread across India.
- **Sugar Industry** Cost Structure of Sugar industry for determining fair prices of levy sugar for the period 2004-05 to 2006-07 besides dealing with other parameters like zoning and other issues connected with the Industry.

(II) System Studies

- Review of costing system and fixation of Common Hourly Rate & Overhead Percentage for the year 2003-04 in respect of five Govt. of India Presses viz. Mayapuri, Nashik, Rashtrapati Bhawan, Mysore & Nilokheri.

(III) User Charges Studies

(i) Fixation of fees to be charged by National Institute of Biological, NOIDA for quality control Testing of Biological products.
(ii) Determination of prices of Diphtheria, Tetnaus, Pertussis Concentrates and Vaccines based on these, Measles Vaccine and BCG Vaccine. The Vaccines are required for Expanded Immunization Programme, a centrally funded programme administered by Ministry of Health. Since the budgetary outflow depends upon the price, these studies fall within the category of charges payable by the Central Government from the Central Budget.

(IV) Fair price determination of goods purchased/services utilized on Single Tender Basis or from limited sources

(i) Various Woollen/Handloom items procured from ACASH & Women Development Organization (WDO).
(ii) Vetting of prices of Ayurvedic/Unani Medicines supplied by M/s. IMPCL to CGHS dispensary during the year 2004-05.

(V) Fair selling price of products/service where Govt. is the Producer/Service provider as well as the user

(i) Fixation of Bench Mark Export Price and Tear Smoke Munitions (TSMs) manufactured by Tear Smoke Unit (TSU), Tekanpur and consumed by various Central Paramilitary forces and State Police Organizations.
Fixation of fair selling prices for Postal Stationery Items supplied by ISP, Nashik during the year 1998-99.

(VI) Fixation of service charges for the services rendered by one Govt. Department/Agency on behalf of the others

(i) Verification of claims made by NAFED in respect of Price Support Scheme(PSS) for Sunflower Seed for Rabi 2002 season as well as Copra 2001, 2002 & 2003 season.
Verification of claims in respect of Market Intervention Scheme (MIS) for Arecanut, Oil Palm, Onion, 'C' Grade Apples, Hatkora as well as Ginger.

(VII) Determination of subsidy for catering (Parliament House Complex and Prime Minister's Office).

(VIII) Balance Sheet on accrual accounting principles in case of Departmental manufacturing units

Preparation of Balance Sheet and Income & Expenditure Account of BSF, Tekanpur for the year 2004-05.

(IX) Concurrent Audit

56 Reports in respect of Concurrent Audit of Equated Freight Rate/Escalation claim of various Fertilizer companies were issued during the year 2005.

(X) Other miscellaneous studies conducted by CAB during the year 2005 are as under:-

(i) Fixation of overhead rate for the India Meteorological Department (IMD) workshops at New Delhi as well as Pune.
(ii) Fixation of selling price of different Alkaloids.
(iii) Study to suggest Modalities/Parameters for fixation of Export Price of Opium.
(iv) Abatement of Service Tax- Representation of FOTSII.
(v) Implementation of VRS scheme on Cost Reduction towards employee's expenditure and its impact on the consumer of NDPL, BSES Yamuna Power Limited and BSES Rajdhani Power Limited.
(vi) Subsidy for new bottling plan at Port Blair.
(vii) Costing of the film processing Laboratories- for the year 2005-06.
(viii) Rate contract with M/s. Titanor Component Limited, Goa for supply of Electro-Chlorinators- Recosting of six items under rate contract.

(ix) Costing of Renewable energy devices when used for remote village electrification in respect of SPB System and Bio-mass.

(XI) Major Studies in hand

- Pricing of various courses run by the Ali Yavar Jung Institute for the Hearing Handicapped – Ministry of Social Justice & Empowerment.
- Costing of various Postal Services/Products for review and revision of its prices – Department of Posts.
- Technical-cum-Cost study of the production of Oral Polio Vaccine of 20 doses vial – Ministry of Health & Family Welfare.
- Reimbursement of processing cost of Thorium Oxalate produced from Thrust Operation at Alwaye unit, IREL and stored on behalf of Govt. of India – Department of Atomic Energy.
- Developing of a Computerised costing system for M/S Pasteur Institute of India, Connoor - Ministry of Health & Family Welfare.
- Study of fee structure and other user charges – IGNOU

(XII) Estimated Savings/Incremental Revenue to Government Exchequer on account of studies carried out by Chief Adviser Cost's Office

The estimated recurring savings to the Government based on the recommendations made by Chief Adviser Cost's Office during the year 2005 may be seen from the following table :-

Brief Subject	Estimated Savings/ Incremental Revenue
Fee for quality control of Biological Products	Rs.69.23 lakh p.a
Rates of Express Parcel Posts	Rs.20 crore p.a
Cost of CGHS Card	Rs.107.10 lakh (for 2004-05) Additional savings contingent upon acceptance of CAB's recommendations
Measles Vaccine	Rs.105.60 lakh
Subsidy for new LPG Bottling plant at Port- Blair	Rs.893.18 lakh p.a
Fair cost structure of Sugar Industry	Rs.42 crore p.a (with 10% Levy Sugar)

(XIII) Major Committees Represented

Officers of Chief Adviser Cost Office because of their expertise in commercial accounting, have also served as Chairman/Members on the following major multi-disciplinary Inter-Ministerial/Expert Committees:

1. Committee to carry out a comprehensive review of existing Rate Structure for DAVP Advertisements and to suggest a new Rate Structure Formula.
2. National Pharmaceuticals Pricing Authority, Department of Chemicals & Petrochemicals.
3. Board of Governors and the society of the National Institute of Financial Management (NIFM), Faridabad
4. Constitution of an Advisory Committee to advise the Government on Abatement for Excise Duty and Service Tax.
5. Governing Body of Tear Smoke Unit, BSF, Tekanpur
6. Standing Committees set up by various Ministries/ Departments for fixation of responsibility for time and cost overruns.
7. Fertilizer Industry Coordination Committee, Department of Fertilizers
8. Steering Group for revamping the management system of Department of Family Welfare.
9. Committee to consider the procurement of agricultural commodities under the Market Intervention Scheme.
10. Committee to monitor the construction of 400-pax-cum-100 tonne cargo Vessel for Andaman & Nicobar Administration and Lighthouse Tender Vessels for Department of Lighthouses and Light Ships by HDPE Ltd.
11. Committee for the study of pricing/costing of services and products of Survey of India.
12. Working Group to suggest modalities and parameters for determining the procurement and export prices of opium.
13. Committee to examine the outstanding claims amounting to Rs.13.94 crore of Ministry of External Affairs against Steel Authority of India Limited (SAIL).
14. Committee to evaluate the proposal of C-DAC for comprehensive computerisation of the operations in the Patent Office, Controller General of Patents, Designs & Trademarks, Department of Industrial Policy and Promotion.
15. Advisory Committee constituted for examination of draft Cost Accounting Rules framed by the Department of Company Affairs in respect of various products.
16. Committee for review of policy regarding advance payment system on account of CISF deployment in PSUs.
17. Standing Committee of State Secretaries of Stamps and Registration
18. Committee on operationalisation and implementation of energy saving measures in the Central Government Buildings/establishments.
19. Committee for uniform costing and preparation of proforma accounts for various Mints & Presses.
20. Committee of Competition Commission of India for consideration of draft regulations prepared by Consultant of D/O. Company Affairs.
21. Committee on Evaluation of Assets, buildings etc. under Department of Fertilizers.
22. Finance Committee for National Institute of Financial Management (NIFM).

(XIV) Emerging Role of Chief Adviser Cost Office

Focus is now shifting on applying costing techniques at macro level so that overall benefit of cost techniques could be availed for reducing cost/subsidies or increasing revenues. A number of areas particularly in the field of fertilizers, food, petroleum are being identified in addition to the traditional areas which itself result in annual saving to the exchequer to the extent of Rs.400 to 600 crore as a consequence of cost based studies undertaken by the Chief Adviser Cost's Office besides indirect benefits that accrue as a result of such studies.

9. CONTROLLER GENERAL OF ACCOUNTS (CGA)

The Controller General of Accounts is apex accounting authority of the Central Government exercising the powers of the President under Article 150 of the Constitution for prescribing the form of accounts of the Union and State Governments on the advice of Comptroller and Auditor General of India. Broadly, the functions entrusted to the Controller General of Accounts are as under:-

- To formulate the policy relating to the general principles, form and procedure of accounting for the entire Central and State Governments.
- To coordinate and oversee the payment, receipts and accounting matters in the Central Civil Ministries/ Departments through the set up of the Civil Accounts Organization.
- To coordinate and assist in the introduction of management accounting systems in Ministries/ Departments with a view to optimize utilization of Government resources through efficient cash management and an effective Financial Management Information System.
- To administer banking arrangements for disbursements of Government expenditures and collection of government receipts and interaction with the central bank of reconciliation of cash balances of the Union Government.
- To consolidate the monthly and annual accounts of the

Central Government and put in place a robust financial reporting system in the overall endeavour toward the formulation and implementation of a sound fiscal policy by Government of India.

- To ensure Human Resource Management such as recruitment, deployment and career profile management of the requisite officers and staff both at the supervisory level and at the operational level within the Indian Civil Accounts Organization.

The office of the Controller General of Accounts is responsible for monthly consolidation of Union Government accounts. A detailed analysis of monthly trends of receipts, payments, deficit and its sources of financing are presented to the Union Finance Minister every month. The document has over a period of time evolved into an extremely useful tool for monitoring budgetary compliance and a handy MIS reference for decision making. In consonance with the Government's policy towards transparency in public functioning, an abstract of the Union Government account is also released every month on the Internet. The data can be accessed at the website, http://cga.nic.in and http://www.cgaindia.org.

In tune with development in best practices, CGA's office also prepares Provisional accounts of the Government of India within two months of completion of the financial year. The professionalism with which these accounts are prepared is evident from the high accuracy level attainted in the last few years as only marginal variations have been observed between the Provisional Accounts and final audited Annual Accounts.

Union government Finance and Appropriation Accounts (Civil) for 2003-04 were submitted to Comptroller & Auditor General of India during February 2005 and were laid before both the Houses of Parliament on 6th May 2005 along with Union Government (Civil) Report No.1 of 2005 of C&AG of India. A publication titled "Accounts at a Glance 2003-04" was brought out during this period containing broad and significant features of Government receipts and expenditure.

The Capital Restructuring Cell in the Office of Controller General of Accounts which examines proposals relating to Capital Restructuring of Central PSUs has during 2005-06 scrutinized and provided technical inputs for 14 cases of Public Sector Undertakings.

In the Fiscal Policy Strategy Statement placed before Parliament, it had been indicated that Ministries would be expected to release a summary of their monthly receipts and expenditures to the general public (through their websites) and disclose scheme-wise funds released to different States. This is aimed at improving the quality of implementation and enhancing the efficiency and accountability of the delivery mechanism. In pursuance of this objective, Controller General of Accounts has ensured that the Accounting units of all Civil Ministries release a summary of their monthly receipts and expenditures alongwith statement of scheme – wise funds released to different States, in a common format for public viewing through their websites. The Ministries are releasing the desired information by the last working day of every month.

The Statement also indicated that the System and procedures of release for funds should be reviewed and revamped. This office has been actively monitoring the Utilization Certificates. Outstanding Utilization Certificates amounting to 71.42% have been cleared.

Furthermore Ministry of Finance was to streamline funds disbursement in the Ministries that handle bulk of social sector expenditures and disburse funds to autonomous bodies in States. The objective is to speed up the flow of funds to those bodies receiving funds of more than Rs 10 crore from the Central Government, through the use of latest technology available with the banks. Accordingly, the Office of Controller General of Accounts took up the issue with the Ministries of Rural Development, Health & Family Welfare, and Human Resources Development to make necessary arrangements in this direction, leveraging the technological advancements and IT networking available with the banks. All these three Ministries have put in place a detailed mechanism in consultation with the banks to ensure speedy remittance within 24 – 48 hours.

Gender Budgeting: Finance Minister in his budget speech of July 2004 had mentioned about the recommendation of an Expert Group on introduction of gender budgeting in Government. Subsequently, a statement highlighting the gender sensitivities of the budgetary allocations under 10 demands for grants was included in the budget of 2005-06. Finance Minister also mentioned, in his budget speech of 2005-06, that in due course of time, all Departments would be required to present gender budgets as well as make benefit – incidence analyses. An inter – departmental committee headed by Secretary (Expenditure) is looking into issues related to implementation of Gender Budgeting in government. A major problem in implementation of the Expert Group's recommendations has been lack of adequate information for gender segregation of accounting data. A sub-Group drawing officers from CGA's office, Planning Commission, Budget Division, Ministry of Finance, Department of Women & Child Development and National Institute of Public Finance and Policy (NIPFP) has been constituted to suggest an appropriate classification mechanism for gender segregation of budget and accounting data and suitable changes in the analytical matrices recommended by the Expert Group. Sub-Group is in final stages of finalizing its report.

9.1 Other major Initiatives by CGA

There is self-evident need of upgradation and modernization of some of the key areas of government accounting system to bring it on par with latest and the best international practices and to create a properly structured accounting system that ensures accountability and transparency in the Government. The Government has in principle accepted recommendations of XII Finance Commission that there should be a *"gradual move towards accural basis of accounting"* for the Union Government. Accordingly, the Controller General of Accounts (CGA) has undertaken the following initiatives:

- Conduct a feasibility study for introducing accrual based accounting in selected Ministries/organizations,
- Develop a modern, unified, multidimensional system of accounting classification, and
- Develop an advanced Internal Controls and Internal Audit system for Government Departments.

As a first major step in this direction, CGA's office organized an international workshop in September 2005. This workshop was attended by senior/middle level Government officers responsible for policy formulation on accounting matters in the Ministry of Finance and maintenance of accounts and other related functions in the line Ministries. The implementation aspects of transition from the cash to accrual based accounting and development of a new comprehensive classification system were deliberated upon.

It is felt that these reforms in longer term would result in better quality financial information leading to improved decision-making, greater efficiency in the allocation and management of public resources, enhanced accountability and improved performance monitoring.

Information Technology Initiatives of CGA: The following programmes for computerization of Government Accounting functions in Civil Ministries are in varying degrees of implementation:-

- COMPACT: for use in Pay & Accounts Offices. This software has been implemented in all PAO's across India and replaces the earlier IMPROVE package.

- CONTACT/CONTACT(ORA): for consolidation of Accounts in Principal Accounts Offices. This software is being replaced with a new web based package which would be implemented in due course in all the Principal Accounts Offices.
- GAINS : for consolidation of Accounts in CGA's office and preparation of Annual Finance Accounts and Appropriation Accounts of the Union Government of India. This GAINS software developed on ORACLE 6i – character based platform is being upgraded to SQL Server with Graphic User Interface. The system design of software is also being modified to cater to all Accounting consolidation and reporting needs of the CGA Headquarters.
- WEB-SITE: The website of this office www.cgaindia.org displays the annual and monthly accounts of Central Government, besides other relevant information pertaining to the O/o CGA. The site is regularly updated and all new orders and notifications are uploaded.

10. THE INSTITUTE OF GOVERNMENT ACCOUNTS & FINANCE (INGAF)

The Institute of Government Accounts and Finance (INGAF) was set up in February, 1992 at Delhi with a view to impart in service training to the Accounts personnel of Civil Ministries/Departments in various disciplines of Financial Management. The Institute carries out its activities with the help of three regional training centers located at Kolkata, Chennai and Navi Mumbai. The Institute now also trains officers of the Central Government, the State Governments and personnel of Public Sector Undertakings and Autonomous Bodies in matters relating to Government Accounts and Finance. Under the aegis of Indian Technical and Economic Cooperation (ITEC) Programme and Special Commonwealth Assistance for Africa Programme (SCAAP) of Ministry of External Affairs, the Institute has been conducting programmes on Public Financial Management since 1995 – officials from 63 countries have participated. Besides, a bilateral exchange programme with the Sri Lanka Institute of Development Administration has been in place for a decade. In the current financial year, the Institute has imparted training to 2072 officials up to December 2005.

Recent public reforms including Fiscal Responsibility Legislation, Outcome Budget, General Financial Rules 2005 and Right to Information Legislation have been incorporated in the curriculum at a suitable level for our courses. The Institute has included programmes on Hindi, e-Governance activities, empowerment of women and gender sensitization as well as self – development in its calendar. In particular, an intensive training in the Information Technology applications for financial management is being imparted both in Delhi and the Regional Training Centres.

11. CENTRAL PENSION ACCOUNTING OFFICE (CPAO)

The Central Pension Accounting Office during the year carried out its role efficiently processing all pension cases within the prescribed time frame. During the period CPAO discharged additional responsibilities as the Interim Central Record Keeping for the New Pension Scheme deal with all new recruits to central Government services, Defence (except the armed forces), Railways, Post & telecom.

The Central Pension Accounting Office (CPAO) set up on 01.01.1990 is administering the "Scheme for Payment of Pensions to Central Government Civil Pensioners by Authorized Banks". Its functions interalia, include:

- Preparation of Budget for the Pension Grant and Accounting thereof
- Issue of special Seal Authorities (SSAs)
- Audit of pension payment made by Banks

From its inception in January 1990 to 31st March, 2005, 4,50,206 pension cases were authorized. Besides this 4,26,770 Revision/Commutation/Transfer authorities were issued during the period. Between April 2005 and December 2005, this office has processed 38,684 Pension/Revision/Commutation/Transfer cases upto 31st December, 2005. It is expected that approximately 50,000 cases would be processed during the financial year 2005-06.

As Interim Central Regulatory Authority (CRA) for the New Pension Scheme CPAO is collecting and maintaining database for all new entrants to Government Services since January 2004 which requires co-ordination with a large number of units with the Defence, Railways, Post & Telecom departments.

11.1 E-Governance activities at CPAO

CPAO is fairly computerized office. Its main function is authorization of pension to the Authorised Banks, and preparation of Budget and Accounts. Soon after receiving the PPO (Pension Payment Order), the case is diarised, a unique Diary No. is assigned and referred to respective authorizations section for entry and verification. The SSA (Special Seal Authority) is then printed, authorised and sent back to dispatch section for sending to various banks. All the above functions are done using a central computer with terminals available in all sections. It is possible to trace any case received to CPAO at any stage of processing. The pensioner can enquire about his case any time by giving his PPO Number, from the Enquiry Computer set up at reception.

CPAO has developed its website http:/cpao.nic.in with active technical support of NIC which was launched on 8th Oct., 2001. This website provides information to the pensioners on the status of their cases. They can also make enquiries and obtain replies from CPAO. Websites also gives the latest pension related circulars and links to related site.

Many useful MIS reports like section-wise DSR (Daily Status Report), Operator-wise report are generated to help top management to effectively and efficiently run the office. Management is able to track pendency at different sections in the office such as Receipt, Despatch, Authorisation, Computer Section etc. It is easy to mark the inefficiencies in different section, simply with the help of Daily Status Reports and bottlenecks if any, can easily be identified to initiate corrective measures.

Also a wide range of softwares have been developed and implemented in this office for streamlining pension disbursement and accounting. These include:-

- **(i) PEARL:-** For processing of pension cases received in this office and issue of Special Seal Authority.
- **(ii) COMPACT, PAO-2000:-** For compiling Monthly Accounts of pension grant and expenditure relating to this office.
- **(iii) AG Management Software:-** For creating database of pensioners drawing through various treasuries and compiling vouchers and processing claims received from various AGs.
- **(iv) CRA Software:-** For interpreting data received from various Ministries relating to New Pension Scheme incorporating it in our database and generating various reports for reconciliation.
- **(v) Database Management Software:-** A software for comparison of bank's database with CPAO's database of pensioners has been developed and exception reports are generated by it to clean up the database and establish a completely matching database of both the ends.

All these initiatives aim at establishing integrity of pension disbursement and accounting process and reduction in paper work so as to enhance efficiency and effectiveness of the functioning of this office.

11.2 Policy & Coordination Wing

This newly created Wing handles work concerning the Department, which concerns either to everybody in general or to nobody in particular. Besides, it is the focal point of several new initiatives like Outcome Budget and other Expenditure Management initiatives under the Fiscal Responsibility and Budget Management Act. Specific activities and mandate include Coordination of Outcome Budget of different Ministries/Departments; Expenditure Management Policy/Strategy; Monitoring of implementation of recommendations of the Expenditure Reforms Commission and of Economy Instructions on expenditure management; Recommendations of the Public Accounts Committee, which have bearing on general expenditure management; Work relating to Fiscal Responsibility and Budget Management Act devolving on DoE; Review of monthly accounts; Overall coordination of implementation of Right to Information Act, 2005 in DoE; General Budgetary Coordination for DoE; Scrutiny of Legislative proposals received in DoE for comments; Accounting issues within DoE's domain; Annual Report of the Department; Reports/returns concerning DoE; DoE's representation in various committees and autonomous bodies; Miscellaneous policy issues and proposals for Cabinet, which are not specifically dealt with in any other wing/ division of DoE.

In para 100 of his Budget Speech (BE2005-06), the Finance Minister had announced Government's intention to improve the quality of implementation and enhance the efficiency and accountability of the delivery mechanism. Subsequently, the Prime Minister had urged all Union Ministers to examine the programmes/ schemes being implemented and convert their financial outlays into physical outcomes with quarterly targets in respect of each, for achieving our common objective to improve the quality of implementation of developmental programmes. In pursuance of the above announcements, the Department of Expenditure undertook a major exercise, with active participation of the Planning Commission, for compilation of Outcome Budget 2005-06, a first of its kind, and presented to Parliament on August 25, 2005. Guidelines have now been issued for preparation of Outcome Budget 2006-07 by the Ministries/Departments, to be presented to Parliament before the recess of the two Houses during the Budget Session. Orders were issued that the Expenditure Finance Committee and the Public Investment Board will not consider any scheme/project for appraisal unless the intended outcomes and timelines are clearly indicated in the proposal. The P&C Wing is gearing itself to bringing greater focus on post-sanction expenditure review, location of design deficiencies and issues concerning overall improvement in the expenditure management and quality of implementation.

As indicated by the review of accounts for December 2005, with non-Plan expenditure growing at 6.7% and Plan expenditure growing at 16.5%, there is a discernible shift in the quality of public expenditure and also an improvement in the spending pattern, which used to result in greater expenditure toward the end of the financial year. By Dec 2005, Plan expenditure was 66% of Budget compared to 56% of Budget last year and 59% of Budget as a moving average of last 5 years. Ministries have been requested to phase out expenditure to avoid bunching toward the end. However, accumulation of "unspent balances" with States and other implementation agencies has been a matter of concern and several steps have been taken to deal with this problem. Action has been initiated for introduction of e-banking for transfer of funds to District level implementation agencies by the Ministries of Human Resource Development, Rural Development and Health & Family Welfare. It is contemplated that all the District Rural Development Agencies be covered on priority. The intended system has two distinct objectives. First is the "speedy transmission of funds" to the implementing agencies in recognition of the importance attached to their programmes and the second objective is to have an equally speedy feedback to the Ministries of actual utilization. Besides, a ban has been imposed on releases of grants-in-aid to any entity (including State Governments), which has defaulted in furnishing utilization certificates. No funds can be released to any entity in default without express clearance from the Ministry of Finance. In respect of all grants released prior to 1st April, 2002, two months' notice may be given to the concerned entities to furnish the required utilization certificates, failing which the amount should be deducted from future releases and credited to government revenue as "refund of unused grants". A special drive was launched for clearance of pending Utilization Certificates and out of 87,270 utilization certificates involving Rs.41,997 crore outstanding for grants released up to 31.3.2004, as many as 41,496 utilization certificates involving Rs.30,195 crore had been cleared by November, 2005.

Suitable instructions are issued from time to time to all the Ministries/Department with a view to contain non-Plan, non-developmental expenditure, reduce deficits and improve financial discipline. Latest such guidelines were issued on November 23, 2005 on "Budget/Expenditure Management – Economy Measures, Rationalization of Expenditure and Measures for Augmentation of Revenues". These guidelines, inter alia, provide for ceilings on the expenditure on office expenses, foreign travel, overtime allowance/ honorarium, hiring of vehicles, telephones charges, fuel consumption, seminar/conferences to the average of actual expenditure incurred in 2002-03, 2003-04 and 2004-05 through appropriate economy measures. Restrictions have been imposed on purchase of new vehicles, creation of new posts, foreign travel, conferences/seminars/workshops. Practices governing transfers of officials are under review. Ministries/Departments have been asked not to transfer funds under any Plan scheme in relaxation of conditionalities attached to such transfers (such as matching funding). Flexibility has been allowed in using the services of private sector for air travel and telecom services. All profit making public sector enterprises have been asked to declare a minimum dividend on equity of 20% or a minimum dividend pay out of 20% of post tax profit, whichever is higher, subject to availability of disposable profits. Review of user charges, license fee, service charges, fees and has been mandated. All on-going programmes and schemes are to be carefully reviewed, scrutinized and evaluated to determine their continued relevance.

12. NATIONAL INSTITUTE OF FINANCIAL MANANGEMENT (NIFM)

This Institute has been set up with a view to establish itself as a premier knowledge – partner in the country for Training, Research and Consultancy in Financial, Accounts & Audit, Public Economics, Human Resource Management and Information Technology. Primary objectives for which this Institute has been established are –

i) To establish and administer the management of the Institute.
ii) To organize and provide training and continuing professional education to Group 'A' officers of the participating Services including organization of Refresher Courses at senior and middle levels.
iii) To establish the Institute as a centre of excellence in financial management for promoting the highest standards of professional competence and practice.
iv) To undertake and promote research consultancy studies in the fields of accounting, audit, financial and fiscal management and related subjects.
v) To promote education in financial and fiscal management for officers of the "Associate Services/Centre/State Governments and officers of public sector enterprises/ institutions.
vi) To organize International Training Programmes and to keep abreast with the progress made in the rest of the work in the area of finance and accounts, particularly in the Government and public sector institutions.

Towards the achievement of above set objectives, NIFM provides 10 months professional training to probationers of the six Central Group 'A' Finance and Accounts Services with a view to equip them to handle top-level finance jobs in the government. National Institute of Financial Management also provides opportunity far comprehensive & integrated mid career professional training to in-service officers of Central and State Governments as well as foreign countries, especially SAARC countries by organizing need based short term Management Development Programmes as well as a Two year Master of Business Administration (Finance) degree course. These courses provide opportunity for professional development, facilitate exchange of ideas, promote quality financial management and bring together government and finance managers and professionals from other disciplines. The Institute has also taken up consultancy projects in various core areas such as review of General Financial Rules and change over accrual system of accounting and preparation of Annual Financial Statements in the standard formats.

The National Institute of Financial Management is a society registered under the Societies Registration Act 1860. The General Body of the Society is headed by Finance Minister, Govt. India. The Board of Governors of the NIFM Society is chaired by the Secretary(Expenditure). The Institute started functioning from January 1994 and has successfully completed training of twelve batches of probationers of various Accounts, Audit and Finance Services. Training of 13th Batch of Probationers is commencing from 9th January, 2006. The duration of the training course is 44 weeks. The Institute has a total sanctioned strength of 85 (including 28 faculty posts) out of which 66 posts are presently filled.

12th Professional Training Course completed in the second week of November, 2005. In all, 12 probationers joined the programme. They were from IRAS (05), ICAS (04) IDAS (03) and IP&TFAS (NIL). The number went down to 08, after 04 probationers left the course on joining other services in August, 2005. In addition, 07 IA & AS probationers also joined the course in August, 2005 (06 remained after 01 submitted resignation to join other service).

The NIFM conducts Management Development Programmes of varying duration every year. Currently the focus of MDPs is in the following areas: (a) Budgeting & Public Expenditure Management (b) Accounting Systems & Financial Management in Government (c) Procurement of Goods & Services (d) Tendering & Contracting (e) Public Financial Management (f) Standard Rules & Procedures of the World Bank for Procurement of Goods, Works & Services (g) Cyber Crime & Forensics (h) Value Added Tax. Some of these programmes are sponsored by different Government Departments, Foreign Governments, etc. In addition, various Govt. Departments, PSUs etc. sponsor candidates for the specialized courses conducted by the Institute. During the year 2005, 40 programmes have been conducted.

NIFM had been conducting MBA(Finance) since year 2002. This year a two year Post-Graduate Diploma in Business Management (Financial Management) approved by AICTE has been designed to replace earlier MBA(F) programme affiliated to Maharshi Dayanand University, Rohtak, Haryana. The programme is commencing from 6th February, 2006. Programme consists of four semesters with a duration of 22 weeks per semester. First three semesters are dedicated for classroom teaching. The fourth semester is dedicated to project work. The Institute has arranged a two weeks Seminar at the International Centre for Promotion of Enterprises at Ljubljana, Slovenia located in Europe with the collaboration of University of Ljubljana. The programme aims at providing exposure to contemporary issues, helping prepare macro scenario for best corporate practices, providing models of governance for both the corporate and public administration. It is designed to impart knowledge & develop skills in areas such as Commercial Accounting, Government Accounting, Financial Management, Public Finance, Budgeting, Financial Policy Formulation, Project Management, Financial Decision Making and MIS.

NIFM conducted a seminar on "Role Authority & Accountability of Financial Advisers" in May, 2005.

The following Consultancy Projects have been completed by NIFM during the year.

- Provide guidance to IGNOU in adopting the new standard format of Accounts & impart training to its staff in Accounting & Financial Management.
- Change over to accrual system of Accounting & Preparation of Annual Financial statements in the Standard Format for Jawahar Lal Nehru University.
- Organisational restructuring of National Institute of Fashion Technology.
- Study of National Procurement Training Centre [NPTC] in Bishkek, Kyrgyz Republic.

The following Consultancy Projects have been awarded to NIFM during the year.

- Redesigning of Course Structure/Course Material for Training of Orissa Finance Service Officers with DFID funding.
- Enhancing Institutional Capacity of Royal Institute of Management, Royal Govt. of Bhutan.

In its quest for excellence and in tune with the global movement towards quality in the education sector, the NIFM went in for ISO – 9001 certificate through the TUC CERT Certification Body of Rheinisch – Westfalischer TUV E.V (Germany),a world renowned Certifying Body. The NIFM met the requirement of the quality standards and was awarded the ISO certificate, which was received by the Union Finance Minister, President of the Institute, on the 06th January, 2001. The system has been up graded from ISO 9001 – to ISO 9001'2 standard w. e. f. 30-10-2003.

In Post Graduate Diploma in Business Management (FM) course, fifteen seats funded by Planning Commission are reserved for North-Eastern Region participants.

The Campus is spread over 40 acres of land beautifully landscaped for creating pollution free environment along with beautiful rose garden and lawns, which has been visited even by the migratory birds during the seasons. More than 12000 trees/ plants have already been planted in the Institute's campus. A beautiful Cactus Garden has been developed in the Institute.

13. PUBLIC GRIEVANCES REDRESSAL MACHINERY AND CITIZEN INTERFACE:

- A Public Grievance Redressal Machinery with Joint Secretary in charge of Administration as the Director of Grievances is functioning in the Department. The number of grievances received from public is negligible.
- A "*Complaint Committee"* has been constituted in this Department as per the guidelines of the Supreme Court for redressing the grievances of women.
- In pursuance of Department of Administrative Reform & Public Grievances O.M. No.33011/1/97-O&M dated 21.5.1998 introducing an award scheme for the Central Government employees as well as members of the Public, regarding innovative and workable suggestions for improving the quality of service and making it more customer friendly, a Screening Committee has been constituted in this Department, under the Chairmanship of JS (Per) with DS (A) as Member and US (A) as Member Secretary.

13.1 Implementation of the Right to Information Act, 2005:

- In pursuance to the Right to Information Act 2005, this Department has appointed CPIOs and Appellate Authorities as under:

Name of the Division	Name and designation of CPIO	Name and designation of Appellate Authority
Plan Finance II	Shri K.M. Gupta, Director	Shri Vivek Rae, JS(PF.II)
SIU	Shri Om Prakash, Director	Shri G.P.Gupta, CCA(Finance)
Plan Finance I	Shri B.S.Bhullar, Director	Shri V.K.Senthil, JS(PF.I)
FCD	Shri Rajan Kumar, Director	Shri V.K.Senthil, JS(PF.I)
Cost Accounts Branch	Ms. Aruna Sethi, Director	Shri J.K.Puri, Chief Adviser(Cost)
Personnel Division	Shri Manish Kumar, Dy. Secy.	Shri Atanu Chakraborty, JS(Pers.)
O/o CGA	Ms. Renu Deshpande, Dy. CGA	Shri M.J.Joseph, Joint CGA
CPAO	Ms. Bandhula Sagar, Controller of Accounts	Smt. Vandana Sharma, Chief Controller(Pensions)
NIFM	Shri Sandesh Kumar, Chief Admn. Officer	Shri A.N.Chatterji, Director, NIFM

13 applications have been received in DoE under the RTI Act.

USE OF HINDI AS OFFICIAL LANGUAGE

Hindi Section ensures implementation of Official Language policy of the Government of India in the Department and translation work related to all kinds of general orders, papers to be laid on the Table of Houses of the Parliament, Parliamentary Questions, Reports, Orders, letters received from the Hon'ble Ministers etc. is done by Hindi Section.

In the Department 98.9% Officers/employees have the working knowledge/proficiency in Hindi. About 30% to 76% of Official work is done in Hindi by most of the Officers/employees. Typists/ Stenographers not knowing Hindi typing/stenography are regularly nominated for the training of Hindi Typing and Stenography. This year 10 employees were nominated for Hindi typing/stenography and 8 employees were sent for training of Prabodh, Praveen and Pragya courses. Hindi Workshops are organized from time to time in this Department and after each Workshop the participants are given the Certificates and the employees getting first three positions are given the Cash Awards of Rs.500/-, Rs.300/- and Rs.200/- respectively. This year 3 such workshops were organized and 36 employees were imparted training in Hindi .

All ten Assurances given to Committee of Parliament on Official Language during various Inspections/Oral Evidences have been fulfilled.

For the publicity of Hindi in the Department Hindi magazine "Vyay Patrika" is published invariably by Hindi Section in which first three articles would be awarded Cash award of Rs.1000/-, Rs.750/- and Rs.500/-respectively.

As per rules, in the year 2005 four meetings of Official Language Implementation Committee were held, in which the progressive use of Hindi in the Department was reviewed.

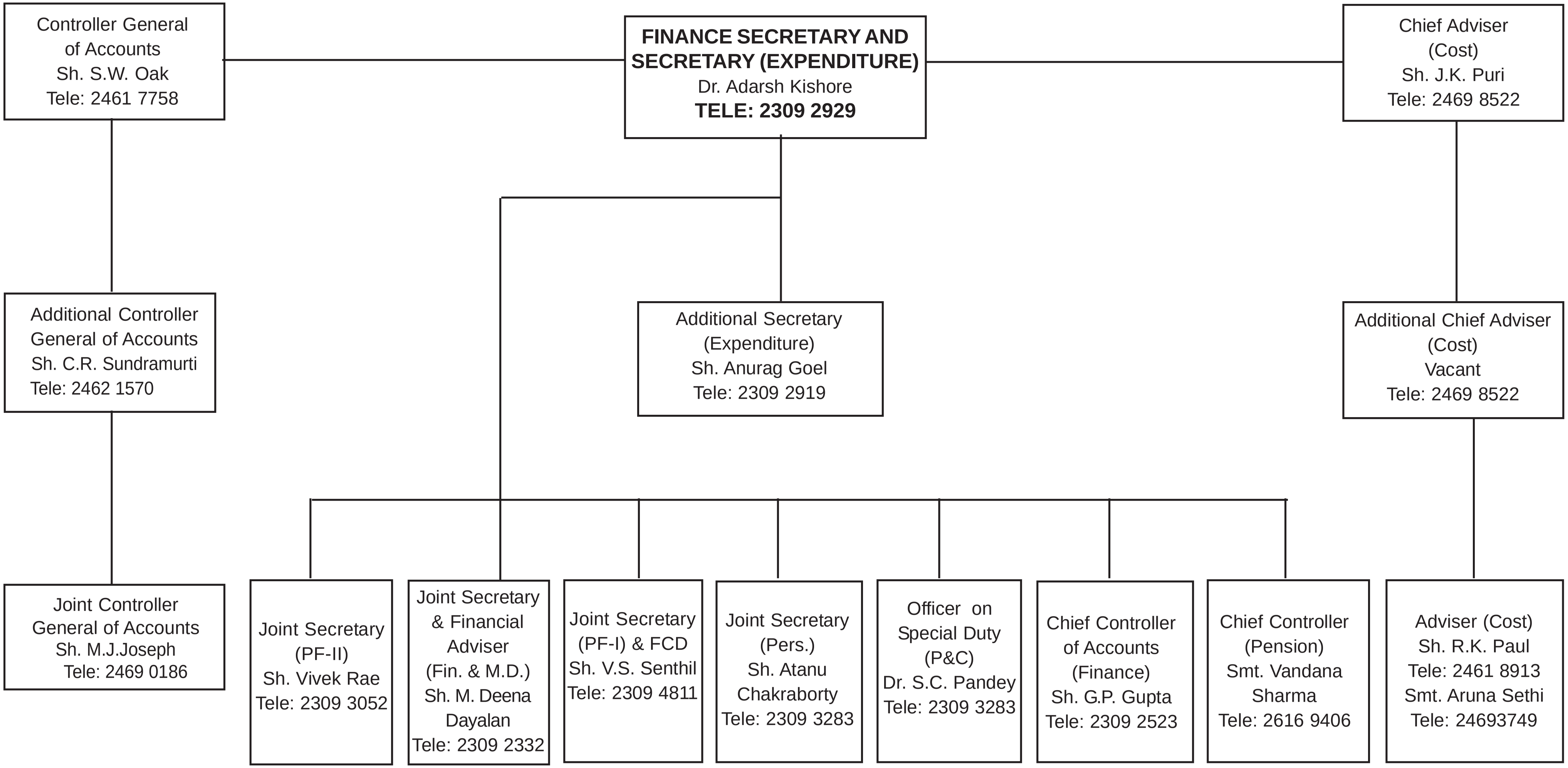
Hindi Fortnight was organized from 1st September to 14th September, 2005 in which apart from Hindi Essay, Hindi Noting/ Drafting, Poetry, Hindi Ashubhashan (Extempore) and Hindi Sulekh Competitions seminars on the subject of Official Language were organized separately for officers and employees Those who secured 1st, 2nd and 3rd position were awarded Cash prizes of Rs.1000/- Rs.800/- and Rs.500/- respectively.

During the year 2005 eight Sections were inspected by Hindi Section in which important suggestions were given to solve the practical problems faced while doing the work in Hindi.

For the effective and streamlined implementation of Rajbhasha, Hindi Section launched a Rajbhasha Sampark Abhiyan. The campaigning team comprising translators/officers assessed the progress of Hindi and necessary steps were taken.

ANNEXURE - I

ORGANISATION CHART OF THE DEPARTMENT OF EXPENDITURE



CHAPTER III

DEPARTMENT OF REVENUE

1. GENERAL

1.1 Organisation and Functions

1.1.1 The Department of Revenue functions under the overall direction and control of the Secretary (Revenue). It exercises control in respect of matters relating to all the Direct and Indirect Union Taxes through two statutory Boards namely, the Central Board of Direct Taxes (CBDT) and the Central Board of Excise and Customs (CBEC). Each Board is headed by a Chairman who is also ex-officio Special Secretary to the Government of India. Matters relating to the levy and collection of all Direct taxes are looked after by the CBDT whereas those relating to levy and collection of Customs and Central Excise duties and other Indirect taxes fall within the purview of the CBEC. The two Boards were constituted under the Central Board of Revenue Act, 1963. At present, the CBDT has six Members and the CBEC has five Members. The Members are also ex-officio Additional Secretaries to the Government of India.

1.1.2 The Department of Revenue administers the following Acts: -

1. Income Tax Act, 1961;
2. Wealth Tax Act, 1958;
3. Expenditure Tax Act, 1987;
4. Benami Transactions (Prohibition) Act, 1988;
5. Super Profits Act, 1963;
6. Companies (Profits) Sur-tax Act, 1964;
7. Compulsory Deposit (Income Tax Payers) Scheme Act, 1974;
8. Chapter VII of Finance (No.2) Act, 2004 (Relating to Levy of Securities Transactions Tax)
9. Chapter VII of Finance Act 2005 (Relating to Banking Cash Transaction Tax)
10. Chapter V of Finance Act, 1994 (relating to Service Tax)
11. Central Excise Act, 1944 and related matters;
12. Customs Act, 1962 and related matters;
13. Medicinal and Toilet Preparations (Excise Duties) Act, 1955;
14. Central Sales Tax Act, 1956;
15. Narcotic Drugs and Psychotropic Substances Act, 1985;
16. Prevention of Illicit Traffic in Narcotic Drugs and Psychotropic Substances Act, 1988;
17. Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act, 1976;
18. Indian Stamp Act, 1899 (to the extent falling within jurisdiction of the Union);
19. Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974;
20. Foreign Exchange Management Act, 1999; and
21. Prevention of Money Laundering Act, 2002.

The administration of the Acts mentioned at Sl.Nos.3, 5, 6 and 7 is limited to the cases pertaining to the period when these laws were in force.

1.1.3 The Department looks after the matters relating to the above-mentioned Acts through the following attached/subordinate offices:

1. Commissionerates/Directorates under Central Board of Excise and Customs;
2. Commissionerates/Directorates under Central Board of Direct Taxes;
3. Central Economic Intelligence Bureau;
4. Directorate of Enforcement;
5. Central Bureau of Narcotics;
6. Chief Controller of Factories;
7. Appellate Tribunal for Forfeited Property;
8. Income Tax Settlement Commission;
9. Customs and Central Excise Settlement Commission;
10. Customs, Excise and Service Tax Appellate Tribunal;
11. Authority for Advance Rulings for Income Tax;
12. Authority for Advance Rulings for Customs and Central Excise;
13. National Committee for Promotion of Social and Economic Welfare;
14. Competent Authorities appointed under Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act, 1976 & Narcotic Drugs and Psychotropic Substances Act, 1985; and,
15. Financial Intelligence Unit, India (FIU-IND)

1.1.4 A comparison of the collection of Direct and Indirect taxes during the financial year 2005-2006 with that during the previous financial year is given below:

S.No.	Nature of Taxes	Amounts Collected During the Financial Year *(Rs. in crore)*		
		2004-2005 upto Dec.03	2005-2006 upto Dec.04 (prov.)	%age of growth over last year
1.	Corporation Tax	49,884.00	63,533.00	27.36%
2.	Income Tax*	31,076.00	40,559.00	30.52%
3.	Other Direct Taxes	247.00	245.00	(-) 0.80%
4.	Central Excise Duty	68,421.25	75,019.64	9.64%
5.	Customs Duty	41,212.21	47,715.11	15.78%
6.	Service Tax	8,331.70	13,781.84	65.41%
	Total	**1,99,172.16**	**2,40,853.59**	**20.93%**

* *Income Tax collections include collections under Fringe Benefit Tax, Securities Transactions Tax and Banking Cash Transaction Tax.*

1.1.5 An Organisation Chart of Department of Revenue is given in the Annexure on next page.

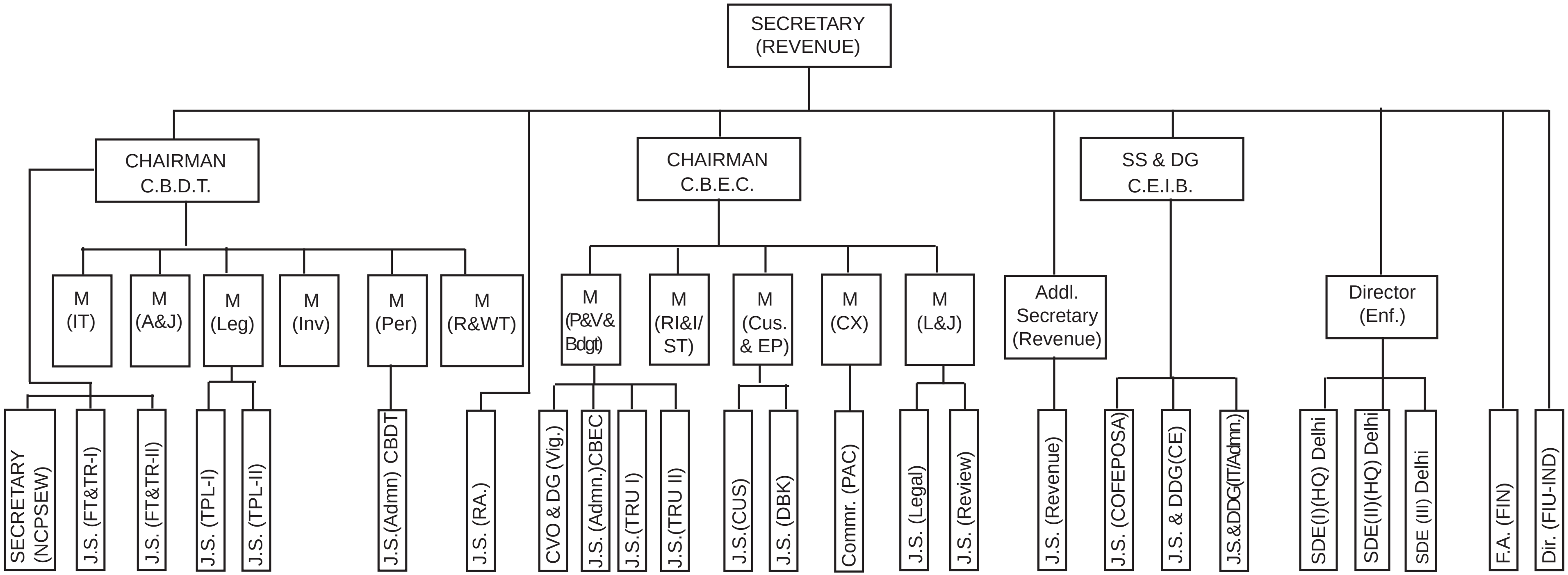
2. REVENUE HEADQUARTERS ADMINISTRATION

2.1 The Headquarters of the Department of Revenue looks after matters relating to all administration work pertaining to the Department, coordination between the two boards (CBEC and CBDT), the administration of the Indian Stamp Act 1899 (to the extent falling within the jurisdiction of the Union), the Central Sales Tax Act 1956, the Narcotic Drugs and Psychotropic Substances Act 1985 (NDPSA), the Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act 1976 (SAFEM (FOP) A), the Foreign Exchange Management Act 1999 (FEMA) and the Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974 (COFEPOSA), and matters relating to the following attached/subordinate offices of the Department:

a) Enforcement Directorate
b) Central Economic Intelligence Bureau (CEIB)
c) Competent Authorities appointed under SAFEM (FOP) A and NDPSA
d) Chief Controller of Factories
e) Central Bureau of Narcotics
f) Customs, Excise and Service Tax Appellate Tribunal (CESTAT)
g) Appellate Tribunal for Forfeited Property (ATFP)
h) Customs and Central Excise Settlement Commission (CCESC)
i) Income Tax Settlement Commission (ITSC)
j) Authority for Advance Rulings (AAR) for Customs and Central Excise
k) Authority for Advance Rulings (AAR) for Income Tax

Annex 1
(Para 1.1.5)

ORGANISATION CHART OF DEPARTMENT OF REVENUE



Legend

CBDT : Central Board of Direct Taxes
CBEC : Central Board of Excise & Customs
M (A&J) : Member (Audit & Judicial)
M (Per) : Member (Personnel)
M (Leg.) : Member (Legislation)
M (IT) : Member (Income Tax)
M (Inv.) : Member (Investigation)
M (R&WT) : Member (Revenue & Widening of Tax)
M (P&V&B) : Member (Personnel & Vigilance & Budget)
M (Cus & EP) : Member (Custom & Export Promotion)
M (RI&&I/ST) : Member (Revenue Intelligence, Investigation and Service Tax)
M (CX) : Member (Central Excise)
M(L&J) : Member (Legal & Judicial)
NCPSEW : National Committee for Promotion of Social and Economic Welfare.

Legend

S.S.&D.G. : Special Secretary & Director General
CVO&D.G(VIG) : Chief Vigilance Officer & Director General (Vigilance)
JS : Joint Secretary
TRU : Tax Research Unit
CUS : Customs
DBK : Drawback
ADMN : Administration
TPL : Tax Planing and Legislation.
FT&TR : Foreign Tax and Tax Research
RA : Revision Applications
COFEPOSA : Conservation of Foreign-Exchange & Prevention of Smuggling Activities Act
CEIB : Central Economic Intelligence Bureau
DDG : Deputy Director General
PAC : Public Accounts Committee
COMMR : Commissioner
SDE : Special Director Enforcement
FA (FIN) : Financial Adviser (Finance)
Enf. : Enforcement

Attached Offices and other Bodies of Department of Revenue

1. Directorate of Enforcement.
2. Central Economic Intelligence Bureau.
3. Central Bureau of Narcotics
4. Chief Controller of Factories
5. Competent Authorities (SAFEM (FOP) Act & NDPS Act)
6. Committee of Management
7. National Committee for Promotion of Social and Economic Welfare
8. Custom & Central Excise Settlement Commission
9. Income Tax Settlement Commission
10. Appellate Tribunal for Forfeited Property
11. Custom Excise & Service Tax Appellate Tribunal
12. Authority for Advance Rulings (Income Tax)
13. Authority for Advance Rulings (Customs & Central Excise)
14. Financial Intelligence Unit, India (FIU-IND)

l) National Committee for Promotion of Social and Economic Welfare (NCPSEW)
m) Financial Intelligence Unit, India (FIU-IND)

The DG (CEIB) reports directly to the Revenue Secretary. The Secretary (NCPSEW) reports to the Revenue Secretary through the Chairman, CBDT.

2.2 The following items of works are also undertaken by the Headquarters:-

I. Appointment of –

a) Chairman and Members of CBEC and CBDT
b) Chairman and Members of ATFP
c) Chairman, Vice Presidents and Members of CESTAT
d) Chairmen, Vice Chairmen and Members of CCESC and ITSC
e) Chairmen and Members of AARs for Customs/Central Excise and Income Tax
f) Director of Enforcement
g) Director General of CEIB
h) Competent Authorities (SAFEM (FOP) A and NDPSA)
i) Narcotics Commissioner,
j) Chief Controller of Factories
k) Director (FIU-IND)
l) Income Tax Ombudsman

II. Setting up of Commissions/Committees under the Department

III. Foreign training and assignment of officers of the Department

IV. Processing of the cases of deputation of IRS/ICCES officers to Central Government under Central Staffing Scheme or any Board/PSU etc.

V. Issue of sanction for payment of annual contribution to the Customs Cooperation Council, Brussels (Belgium) and other international agencies.

Justice R.S.Pathak Inquiry Authority:

2.3 In order to inquire into the contents of certain contracts mentioned in the Report of Independent Inquiry Committee on Oil-for-Food Programme of Iraq (Volcker Committee), the Government of India has set up, *vide* Resolution dated 11th November 2005, a single member Inquiry Authority headed by Mr Justice R.S.Pathak, former Chief Jusitce of India and former Judge of the International Court of Justice. The Authority has been named as “Justice R.S.Pathak Inquiry Authority”. Certain sections of the Commissions of Inquiry Act 1952 have been made applicable to the Authority. The Authority is mandated to complete its findings and submit its report to the Government within a period of six months, unless extended by the Government.

3. CENTRAL BOARD OF EXCISE & CUSTOMS

3.1 Organization and Functions

3.1.1 Central Board of Excise & Customs (CBEC) deals with the task of formulation of policy concerning levy and collection of Customs and Central Excise duties, Service Tax, prevention of smuggling and evasion of duties, and all administrative matters relating to Customs, Central Excise and Service Tax formations. The Board discharges its assigned tasks with the help of its field formations namely, the Zones of Customs & Central Excise, Commissionerates of Customs & Central Excise and the Directorates. It also ensures that taxes on foreign & inland travel are administrated as per the law and the collection agencies deposit the taxes collected to the public exchequer promptly.

3.1.2 **Zones of Customs, Central Excise and Customs (Preventive)**

At present, there are twenty-three zones of Central Excise & Customs across the country located at the following places: Delhi, Chandigarh, Kolkata, Bhubaneshwar, Shillong, Lucknow, Meerut, Ranchi, Mumbai-I, Mumbai-II, Jaipur, Bhopal, Pune, Nagpur, Vadodara, Ahmedabad, Bangalore, Mysore, Kochi, Hyderabad, Vishakhapatnam, Chennai and Coimbatore. These zones are headed by Chief Commissioners.

There are eleven exclusive zones of Customs/Customs (Preventive) headed by Chief Commissioners. These are Delhi, Mumbai-I, Mumbai-II, Kolkata, Chennai, Bangalore, Ahmedabad, Delhi Customs (Preventive), Patna-Customs (Preventive), Mumbai-III Customs and Chennai Customs (Preventive)

3.1.3 **Commissionerates of Central Excise**

There are ninety-three Commissionerates, spread all over the country, which are predominantly concerned with levy of Central Excise duties. Some of these Commissionerates also deal with Customs and Anti-smuggling work in their jurisdictions. These are organized as territorial units, usually extending to part or whole of a State or a metropolitan area.

These 93 Commissionerates are as follows: Delhi-I, Delhi-II, Delhi-IV (Faridabad), Delhi-III (Gurgaon), Panchkula, Rohtak, Chandigarh, Jalandhar, Ludhiana, Jammu & Kashmir, Kolkata-I, Kolkata-II, Kolkata-III, Kolkata-IV, Kolkata-V, Kolkata-VI, Kolkata-VII, Bolpur, Siliguri, Haldia, Bhubaneshwar-I, Bhubaneshwar-II, Shillong, Dibrugarh, Kanpur, Lucknow, Allahabad, Meerut-I, Meerut-II, Ghaziabad, NOIDA, Jamshedpur, Patna, Ranchi, Mumbai-I, Mumbai-II, Mumbai-III, Mumbai-IV, Mumbai-V, Thane-I, Thane-II, Belapur, Raigad, Jaipur-I, Jaipur-II, Bhopal, Indore, Raipur, Pune-I, Pune-II, Pune-III, Goa, Aurangabad, Nasik, Nagpur, Vadodara-I, Vadodara-II, Vapi, Surat-I, Surat-II, Daman, Ahmedabad-I, Ahmedabad-II, Bangalore-II, Bangalore-III, Mysore, Mangalore, Belgaum, Kochi, Thiruvananthapuram, Kozhikode, Hyderabad-I, Hyderabad-II, Hyderabad-III, Hyderabad-IV, Tirupati, Guntur, Vishakhapatnam-I, Vishakhapatnam-II Chennai-I, Chennai-II, Chennai-III, Chennai-IV, Pondicherry, Tiruchirapalli, Coimbatore, Salem, Madurai and Tirunelveli.

3.1.4 **Commissionerates of Service Tax**

Six exclusive Commissionerates of Service Tax at Mumbai, Delhi, Kolkata, Chennai, Ahmedabad and Bangalore have started functioning from 14th September 2004.

3.1.5 **Commissionerates of Customs and Customs (Preventive)**

These Commissionerates, 35 in all, are spread all over the country. They have been assigned the following functions:-

i.) Implementation of the provisions of the Customs Act, 1962 and the allied acts, which includes levy and collection of customs duties and enforcement functions in their earmarked jurisdictions.

ii.) Surveillance of coastal and land borders to prevent smuggling activities. Marine and telecommunications wings are available with the Board to assist these Commissionerates in their anti-smuggling work and surveillance of sensitive coastline.

These 35 Commissionerates are as follows: Delhi (Air cargo Import and General), Delhi(ICD), Delhi (Air Cargo Export), Mumbai (General), Mumbai (Export), Mumbai (Import), Nhava Sheva (Import and Mulund CFS) Nhava Sheva (Export), Mumbai Air Cargo (Import), Mumbai Air Cargo (Export), Mumbai (Airport), Pune Customs, Kolkata (Airport), Kolkata (Port), Chennai (Airport and Air Cargo), Chennai Port (Export), Chennai Port (Import), Bangalore, Mangalore, Kochi, Ahmedabad, Kandla, Vishakhapatnam, Amritsar Customs (Preventive), Jodhpur Customs (Preventive), Delhi Customs (Preventive), Patna Customs (Preventive), Lucknow Customs (Preventive), Mumbai Customs (Preventive), Tuticorin, Tiruchirapalli, West Bengal Customs (Preventive), Kolkata, Shillong Customs (Preventive) and Jamnagar Customs (Preventive).

3.1.6. **Appellate and Tax Recovery Machinery**

At present, there are 54 Commissioners of Central Excise (Appeals) {including Commissioner (TAR)} and six Commissioners of Customs (Appeals). The appellate machinery, comprising the Commissioners (Appeals), deals with appeals against the orders passed by the officers lower in rank than Commissioner of Customs and Central Excise under the Customs Act, 1962, the Central Excise Act, 1944 and Service Tax laws.

3.1.7 **Commissioners (Adjudication)**

At present there are 12 posts of Commissioner (Adjudication) to decide the cases having all-India ramifications and high revenue stakes. These Commissioners attend to Central Excise as well as Customs cases. Six posts of Commissioners have been redeployed in the CBEC with effect from. 25.04.2005 from its field formations.

3.1.8 **Attached/ Subordinate Offices**

In the performance of administrative and executive functions, the following attached / subordinate offices assist the Board in the reorganized set up:-

1) Directorate of Central Excise Intelligence
2) Directorate of Revenue Intelligence
3) Directorate of Inspection
4) Directorate of Housing and Welfare
5) National Academy of Customs, Excise and Narcotics
6) Directorate of Vigilance
7) Directorate of Systems
8) Directorate of Data Management
9) Directorate of Audit
10) Directorate of Safeguards
11) Directorate of Export Promotion
12) Directorate of Service Tax
13) Directorate of Valuation
14) Directorate of Publicity and Public Relations
15) Directorate of Organization and Personnel Management
16) Directorate of Logistics
17) Directorate of Legal Affairs
18) Office of the Chief Departmental Representative (CDR)
19) Central Revenues Control Laboratory (CRCL)

The functions, in brief, of these 19 offices, under the Central Board of Excise and Customs, are given in the **Annexure**

3.2 Total Sanctioned & Working strength of field formations under CBEC as on 1.10.2005

Grand Total*

Sl. No.	Group	Stream	Sanctioned Strength	Working Strength	Vacancy	Remarks
1.	"A"	Main Stream	2464	1927	537	S.S.&W.S. Includes 12 DC/AC allocated to Board
		Others	198	88	110	Includes A.D.(Cost)
		Total	2662	2015	647	
2.	"B"	Main Stream	14132	13048	1084	
		Others	349	219	130	
		Total	14481	13267	1214	
3.	"C"	Main Stream	32585	26464	6121	
		Others	2984	2161	823	
		Total	35569	28625	6944	
4	"D"	Main Stream	12550	12470	80	
		Others	1957	1722	235	
		Total	14507	14192	315	
Grand Total		**Main Stream**	**61731**	**53909**	**7822**	
		Others	**5488**	**4190**	**1298**	
		Total	**67219**	**58099**	**9120**	

**Including strengths in CBN/CCF*

3.3 Indirect Taxes:

Customs, Union Excise and Service Tax are three major sources of the Central Government Tax Revenue.

(A) Customs Duty

Revenue from customs duties during 2003-2004 and 2004-2005, based on departmental records, is given below: -

(Rs. in crore)

2003-2004		2004-2005 (Provisional)	
Budget Estimate	Actual realization	Budget Estimate	Actual Realization
49350	48613	54250	57566

Budget estimate for 2005-2006 is at Rs. 53182 crore against which the collection (up to December, 2005) is Rs.47715 crore (Provisional).

Major changes introduced in the budget 2005-2006 and post-budget changes on Customs duty

I. **Budgetary Changes**

As part of continuous process to bring down tariffs, the peak rate of customs duty on non-agricultural products was reduced from 20% to 15% in 2005-06. With this change, the three major ad-valorem rates are 5%, 10% and 15%. Other major changes made in customs duties are as under:

(a) Enabling powers were taken to levy an additional duty of customs of 4%, on all items imported into India. This levy is meant to partly compensate for the internal taxes like sales tax, proposed State VAT, Central Sales Tax, which apply to sale, purchase or transportation of goods in India. To begin with, this additional duty was levied only on ITA (Information Technology Agreement) bound items and on specified inputs/raw materials for manufacture of electronics/information technology items, which have been exempted from customs duty. Manufacturers will be able to take credit of this duty and utilize the same for payment of excise duty on their finished products.

(b) To encourage indigenous industries, customs duty was reduced from 15% to 10% on primary and semi-finished forms metals viz., Stainless steel, other alloy steel and ferro-alloys; Aluminium; Copper; Zinc; Tin and base metals of Chapter 81 (such as Tungsten, Magnesium, Cobalt, Titanium, etc.). Customs duty on lead was reduced from 15% to 5%. Customs duty on calcined alumina was reduced from 20% to 10%.

(c) To give boost to steel sector, customs duty on certain specified inputs for this industry was reduced from 15% to 10%.

(d) To encourage capital investment in Agriculture and Food Processing Sector, concessional rate of 5% customs duty + Nil CVD, on specified plantation machinery up to 30.4.2005, was extended by one more year. Customs duty on cut flowers including orchids was increased from 30% to 60%. Customs duty on refrigerated goods transport vehicles was reduced from 20% to 10%.

(e) To encourage Research and Development, customs duty on 9 specified equipment for biotech and pharmaceutical sectors, was reduced from 20% to 5%. Customs duty exemption presently available on capital goods and raw materials to a company for any R&D project funded by Government or CSIR has been extended to R&D projects funded by ICMR, ICAR, UGC, DRDO and AICTE also.

(f) To enable domestic industry to compete with the imports of ITA bound items at nil duty, Customs duty was exempted on all inputs for manufacture of ITA bound items subject to end use condition. Customs duty exemption on specified capital goods for Information

Technology/Electronics sector was extended to some more capital goods. Customs duty was reduced from 20% to 10% on optical fibres/bundles and optical fibre cables of heading 9001. Customs duty exemption on specified telecom network equipment and parts thereof up to 31.3.2005, when imported by telecom service providers, was continued without any time limit.

(g) Customs duty structure of Petroleum Sector was rationalised. Duty was reduced on crude petroleum from 10% to 5%; Kerosene for public distribution system from 5% to Nil; LPG for domestic use from 5% to Nil; Motor Spirit (Petrol) from 15% to 10%; High Speed Diesel oil from 15% to 10%; and other petroleum products from 20% to 10%. Besides, Additional duty of customs on motor spirit and high-speed diesel oil was increased from Re.1.50 per litre to Rs.2 per litre.

(h) Customs duty was reduced from 15% to 10% on Polymers of Ethylene, Polypropylene and Propylene copolymers, Polymers and Copolymers of Styrene and Polymers of Vinyl Chloride. Customs duty was reduced from 10% to 5% on Ethylene, Propylene, Butylene, Butadiene, Benzene, Toluene, O-Xylene, Styrene, Ethylbenzene, Ethylene Dichloride, Viny Chloride Monomer and Acrylonitrile. Customs duty on other organic chemicals falling under heading 2901 to 2904 was reduced to 10%. Besides, Customs duty was reduced on Ethyl Vinyl Acetate from 20% to 10%. For molasses and for industrial (denatured) ethyl alcohol duties were reduced from 15% to 10%.

(i) Customs duty of 5% on mono or bi-polar membrane electrolysers and parts thereof presently available to caustic soda industry, was extended to caustic potash industry. Concessional rate of customs duty of 5% on specified goods designed for use in leather/footwear industry was extended to 7 more specified machinery. Customs duty on specified parts of printing press was reduced from20% to 10%. Customs duty on specified textile machinery and raw materials and parts for manufacture of such machinery, was reduced from 20% to 10%. Customs duty on specified machinery/equipment for use in Inland Container Depot (ICD)/Container Freight Station (CFS) was reduced from 20% to 10%.

(j) Customs duty was reduced from 15% to 10% on ashes and residues of copper and zinc. Customs duty was reduced from 15% to 10% on catalysts of heading 38.15. Customs duty on coking coal of high ash content (12% or more) was reduced from 15% to 5%. Customs duty on boron ore was reduced from 15% to 5%.

(k) For replenishment of the National Calamity Contingent Fund, duty of Rs.50 per metric tonne on imported crude oil, and a duty of 1% on polyester filament yarn, motor cars, multi-utility vehicles, and two –wheelers, was imposed in Finance Act, 2003. This levy was valid for one year (up to 29.2.2004) and subsequently extended up to 31.3.2005. This levy was extended without any time limit.

II. **Post-budgetary Changes**

a) Customs duties were exempted on machinery, equipments, instruments, components and spare parts of tools, accessories, computer software, mock-ups and models, required for manufacture or repair/overhaul of Advanced Jet Trainer (HAWK-115Y) and Adour Mark 871-07 engines and capital equipment required for setting up facilities for Intermediate Jet Trainer (HJT-36).

b) Concessional rate of 5% customs duty was provided to machinery & equipments for initial setting up of power project using non-conventional (waste) materials.

c) Customs duty on LNG for generation of power imported by Dabhol Power Plant of M/s. Ratnagiri Gas & Power Co. Ltd., was exempted for a period of 5 years. LNG for Dabhol is fully exempted from customs duty. Acid grade fluorspar was provided the concessional rate of 5% customs duty. Custom duty on fatty alcohol was reduced from 20% to 15%.

(B) Central Excise

Revenue from Union Excise Duties (excluding cesses not administered by Department of Revenue) during 2003-2004 and 2004-2005, based on departmental records is given below: -

(Rs. in crore)

2003-2004		2004-2005 (Provisional)	
Budget Estimate	Actual realization	Budget Estimate	Actual Realization
96396	90907	108500	98621

Budget Estimate for 2005-2006 (excluding cesses not administered by Department of Revenue) is placed at Rs. 120768 crore against which the collection (up to December, 2005) is placed at Rs. 75,020 crore (Provisional) (excluding cesses not administered by Department of Revenue).

Major changes introduced in the budget 2005-2006 and post budget changes on Excise duty

I. **Budgetary Changes**

(a) As a resource mobilisation measure, an additional duty of excise, by way of surcharge, was imposed on pan masala and certain specified tobacco products to finance the National Rural Health Mission. This additional duty is charged at prescribed specified rates on cigarettes, and at a rate equal to 10% of the aggregate of normal rates of excise duties payable on pan masala and other tobacco products except bidis.

(b) Excise duty of 8% with CENVAT credit was imposed on mosaic tiles. Excise duty of 16% was imposed on road tractors (of engine capacity more than 1800cc) for road trailers. Besides, Excise duty of 2% was imposed on branded articles of jewellery. Excise duty was raised on iron and steel from 12% to 16%. Also, Excise duty on molasses was increased from Rs.500 per metric tonne to Rs.1000 per metric tonne which was subsequently reduced to Rs.750 per metric tonne.

(c) As a relief measure, excise duty was reduced from 24% to 16% on air conditioners, tyres, tubes and flaps, from 16% to 12% on matches made by mechanized and semi-mechanized sectors and from 16% to 8% on cakes & pastries and imitation jewellery. Excise duty of Re.1 per kg on refined edible oils and Rs.1.25 per kg on vanaspati, bakery shortening and inter-esterfied, re-esterified, elaidinised fats, was exempted. Tea was exempted from additional duty of excise of Re.1 per Kg. Excise duty on electronic milk fat and solid non-fat tester was reduced from 16% to 8%.

(d) To reduce costs in textile sector, excise duty on polyester filament yarn (PFY), including polyester textured yarns was reduced from 24% to 16%, and optional duty of 8% was prescribed for processed filament yarns (including polyester filament yarn) manufactured from yarn procured from outside by independent processors.

(e) The duty rates of petroleum products were rationalised. Excise duty on petrol was revised from 23% + Rs.7.50 per litre to 8% + Rs.5.00 per litre. Similarly, the excise duty on diesel was revised from 8% + Rs.1.50 per litre to 8% + Rs.3.25 per litre. The basic excise duty on Light Diesel Oil (LDO) was revised from 16% + Rs.1.50 per litre to 16% + Rs.2.50 per litre. Kerosene (PDS) and LPG for domestic use were exempted from excise duty.

(f) In SSI sector, the value of clearances in the preceding financial year, for determining eligibility for the exemption, was increased from Rs.3 crore to Rs.4 crore. The exemption scheme, which provided for a concessional rate of 60% of normal rate with Cenvat credit up to clearances of Rs.1 crore, was withdrawn.

(g) For replenishment of the National Calamity Contingent Fund, 1% duty was imposed on polyester filament yarn, motor cars, multi utility vehicles, and two wheelers and a duty of Rs.50 per metric tonne was imposed on domestic crude oil by the Finance Act, 2003. This levy was valid for one year (up to 29.2.2004) and subsequently was extended up to 31.3.2005. This levy was extended without any time limit.

II. **Post-budgetary Changes**

(a) Specified raw material for manufacture of rotor blades for wind operated electricity generator are exempted from excise duty.

(b) Parts of Internal Combustion (IC) engines manufactured by factory belonging to Indian Railways and used for reconditioning Railway locomotives are exempted from excise duty.

(c) Exemption on reprocessed plastic materials when manufactured from waste of goods was withdrawn.

(d) Cement and steel used in construction of houses (residential) in Tsunami affected areas were exempted from excise duty.

(e) Equipments and machineries for power plants generating power using non-conventional materials such as agriculture/bio-waste & poultry litter were exempted from excise duty.

(f) Fifty percent of concession from excise duty was extended to units of Hindustan Paper Corporation in the North-East region for a period of one year.

(C) Service Tax

Revenue from Service Tax during 2003-2004 and 2004-2005, based on departmental records, is given below: -

(Rs. in crore)

2003-2004		2004-2005 (Provisional)	
Budget Estimate	Actual realization	Budget Estimate	Actual Realization
8000	7891	14150	14199

Budget Estimate for 2005-2006 is at Rs. 17500 crore against which the collection (up to December, 2005) is Rs.13782 crore (Provisional).

Major changes introduced in the budget 2005-2006 and post- budget changes on Service Tax

I. **Budgetary Changes**

a) Increase in rate of service tax from 8% to 10%.

b) An exemption scheme for small service providers whose aggregate value of taxable services provided during the preceding financial year was up to Rs.4 lakhs. The exemption scheme is applicable from 1st April 2005.

c) Exemption from service tax for person producing / processing goods from the inputs received from a manufacturer and sending the resultant product to the same manufacturer for further manufacture of final products, which are cleared on payment of excise duty.

d) The following nine new services were added to the existing list of taxable services.

1) Transport of goods through pipeline or other conduit;

2) Site preparation and clearance, excavation, earth moving and demolition services, other than those provided to agriculture, irrigation and watershed development;

3) Dredging services of rivers, ports, harbours, backwaters and estuaries;

4) Survey and map making other than by Government Departments;

5) Cleaning services other than in relation to agriculture, horticulture, animal husbandry or dairying;

6) Membership of clubs or associations;

7) Packaging services;

8) Mailing list compilation and mailing; and

9) Construction of residential complexes having more than twelve residential houses or apartments together with common areas and other appurtenances.

Besides, the scope of existing services is being expanded, as explained below:

- o Commercial or industrial construction service to include renovation of such building or civil structure, post construction completion and finishing services for such building or civil structure, construction, repair, alteration, renovation or restoration of pipeline or conduits;
- o Erection, commissioning or installation services to include specified installation services;
- o Maintenance or repair services to include maintenance or management of immovable properties, maintenance or repair including reconditioning or restoration undertaken as part of any contract or agreement;
- o Broadcasting services to include charges recovered by broadcasting agencies from multi-system operator (MSO) and provision of direct to home (DTH) signals to the customers;
- o Sound recording to include recording of sound on any media and includes post production services such as sound mixing or re-mixing;
- o Video-tape production to include recording of any programme, event or function on any media and includes post production services;
- o Taxable services provided by authorised service station to include reconditioning or restoration of motor-cars, two wheeled and light motor vehicles;
- o Beauty parlours service to include all services provided by beauty parlours;
- o Manpower recruitment service to include supply of manpower, temporary or otherwise;
- o Franchisee service to cover all agreements by which, the franchiser grants representational rights to franchise to sell or manufacture goods or provide services identified with the franchiser;
- o Business Auxiliary Service to include production or processing of goods for or on behalf of the client; and
- o Outdoor catering service, to include catering from a place or premises provided, by way of tenancy or otherwise by the person receiving such services.

II. **Post-budget Changes:**

Service Tax is exempted on -

- ➢ Commercial or industrial construction service provided to any person by a commercial concern in relation to construction of port or other ports.
- ➢ Site formation and clearance, excavation and earthmoving and demolition and such other similar activities provided to any person by any other person in the course of construction of road, airports, railways, transport terminals, bridges, tunnels, dams, ports or other ports.

- Construction of residential complex from so much of service tax as is in excess of service tax calculated on thirty-three percent of gross amount charged provided that input or capital goods credit used for providing this service is not availed.
- Production or processing of goods for or on behalf of a client, undertaken in the course of manufacture of, cut and polished diamonds and gems stones or plain and studded jewellery of gold and other precious metals.
- Specified taxable services, provided in relation to handling of ships in a port outside India, handling or storage of goods carried in a ship in a port outside India or any other services related to the handling of ships or goods carried in a ship, subject to the condition that such services are provided by a non-resident outside India and are consumed outside India, in course of sailing of ship, which is registered under specified Acts or chartered and licensed under the Merchant Shipping Act 1958 and such ship is owned or charted , as the case may be, by a citizen of India, a company or a body established by or under any Central or State Act which has its principal place of business in India or registered cooperative society.
- Input service distributor and a service provider whose aggregate value of taxable service in a financial year exceeds three lakh rupees.

The services provided to any person, by an aircraft operator, in relation to transport of export goods by aircraft are fully exempted from service tax.

3.4.1 **Simplification of Central Excise Procedures**

1. Circular No.815/12/2005-CX dated 13th May 2005 was issued for Setting up of Help Centre for Small Scale Sector manufacturers. It has prescribed that at-least one Help Centre be set up in each Commissonerate under Additional/ Joint Commissioner. The Help Centre would comprise of authorized representatives of local SSI Association, industry specific Association of the area, local chapter of ICAI/ICWA and an NGO concerned with Central Excise, Customs and Service Tax matters in the local area, if any. The prime objective of the Help Centre is to help the honest tax payer/small assessees/ importers and exporters/ service providers by providing an institutional mechanism for guiding and educating them in all matters relating to Customs, Central Excise and Service Tax. The Centre will make them aware of their rights and obligations as also advantages of tax compliance and consequences of non-compliance.

2. Circular No.818/15/2005-CX dated 15th July 2005 has been issued prescribing manner of scrutiny of ER-1 and ER-3 returns by the Proper Officer. It is stipulated that all the returns received by the Superintendent of Central Excise under sub-rule (1) of Rule 12 shall be scrutinized by him to check the correctness of duty assessed. The inspectors posted in the Range will assist him in carrying out the scrutiny. The scrutiny would be carried out in two stages viz. the 'scrutiny of return' and 'scrutiny of assessment'. Both the stages should be completed within three months of the date of receipt of the return. It is also envisaged that every six months, the Deputy/Assistant Commissioner in charge of the division will scrutinize the returns of units paying annual PLA revenue of Rs.1 crore to 5 crores. A report of the number of returns scrutinized along with his comments shall be sent to the Commissioner latest by 15th of the month following the month of such scrutiny.

Similarly, every six months, the Additional/Joint Commissioner in charge of the Division will scrutinize the returns of units paying annual PLA revenue of more than Rs.5 crores. Wherever necessary he shall requisition the connected documents including invoices and the records and scrutinize the correctness of assessment. A report of the number of returns scrutinized along with his comments shall be sent to the Commissioner latest by 15th of the month following the month of such scrutiny.

3. Circular No.821/18/2005 dated 7th November, 2005 has been issued providing the guidelines for selection of cases for Desk review by using the services of Chartered/Cost Accountants. It is provided that their services are to be used in an advisory capacity only for cases of audit of very large assessees having complicated accounting systems and voluminous transactions, e.g. audit of multi-location units. To facilitate the process of selection, both the Institute of Cost and Works Accountants of India & Institute of Chartered Accountants of India have identified a panel of their accountants whose services can be used.

4. Notification No 26/2005-Central Excise (N.T.) dated 16th May. 2005 has been issued prescribing new format for filing ER-1 and ER-3 returns. This has been done to simplify and rationalize these returns.

5. The prominent changes in the CENVAT Credit Rules, 2004 include provisions that

a) If capital goods are cleared as waste and scrap, the manufacturer shall pay an amount equal to the duty leviable on transaction value.

b) It was clarified by an explanation that the credit shall not be allowed on inputs and input services used exclusively for the manufacture of exempted goods or exempted services.

6. The Central Government has brought into force the Central Excise (Compounding of Offences) Rules, 2005 with effect from 30th December, 2005, the date of publication of these rules in the official gazette vide Notification No. 37/2005-Central Excise (N.T.) dated 30.12.2005. The purpose of compounding of offences against payment of compounding amount is to prevent litigation and encourage early settlement of disputes. An assessee against whom any duty evasion case has been initiated can make an application to the Chief Commissioners who have been given the power to waive prosecution proceedings against the assessee in lieu of prescribed penalties.

7. New procedure relating to sanction and pre-audit/post audit of refund/rebate claims has been prescribed vide Circular No. 809/6/2005-CX dated 1st March, 2005. It has been prescribed that all refund /rebate sanction orders must necessarily be issued as an Order-in-Original. A separate series with suffix 'R' for numbering of Orders-in-Original issued for sanction of refund/ rebate claims may be used. All refund/rebate claims involving an amount of Rs. 5 lakhs or above should be subjected to pre-audit at the level of jurisdictional Commissioner. For the purpose of post-audit/pre-audit of refund/ rebate claims, a cell comprising of Deputy/Assistant Commissioner (Audit), one Superintendent and Inspectors as required, under the overall supervision of Additional/ Joint Commissioner (Audit) may be constituted. The Cell should complete the post-audit before the expiry of three months from the date of payment.

3.4.2 **Innovative Measures**

Help Centres

To facilitate trade and industry, Help Centres have been set up for small tax payers with effect from 1st July 2005.

The salient features of this scheme are as under:

(a) Public-private partnership with the involvement of local trade associations.

(b) These Centres are to be located in the non-official premises provided by trade associations etc.

(c) Widespread publicity campaign undertaken in the print media.

Large Taxpayers Units (L.T.Us)

As a measure of trade facilitation, and in line with international practice, Large Taxpayer Units (LTUs) are being established at 5 metropolitan cities i.e. Delhi, Mumbai, Kolkata, Chennai & Bangalore in the first phase. The objective of this scheme is to provide large taxpayers, whether of corporate tax, income tax, excise duty or service tax, to avail of a single window facility. Backed by the computerization, the concept is likely to impart greater transparency and reduce corruption.

3.5 **Litigation under Indirect Taxes**

1. The Legal Cell in the Board is primarily responsible for handling matters relating to litigation arising out of indirect taxes namely, Customs, Central Excise and Service Tax. The Cell is also entrusted with the responsibility of appointment of Special Public Prosecutors and Special Counsels to represent the Department in various courts and tribunals throughout the country.

2. The number of cases pending before the Supreme Court and High Courts as on 30.9.2005 and revenue involved therein is as under:-

Name of the Court	Total Number of cases	Amount (Rs. in crores)
Supreme Court	2014	4109.49
High Courts	8906	4163.7

3. Several innovative steps were taken with the active support and directions of Hon'ble Minister of Finance and the Secretary (Revenue) to streamline the process of litigation and to put in place an effective mechanism for better coordination with the Ministry of Law for the conduct of cases before the Supreme Court and the High Courts. Periodical meetings were held between the officials of CBEC, Central Agency Section, (Ministry of Law) and the Law Officers to resolve the difficulties from time to time.

4. During the year, the Supreme Court, in the matter of Gujarat Ambuja Cement vs. UOI and in the matter of R.C. Tobacco vs. UOI, has categorically upheld the legality of retrospective legislation under the taxing statute. In the case of R.C. Tobacco vs. UOI, the court, while upholding the withdrawal of excise duty exemption to tobacco units in the North Eastern Sector, negatived the arguments advanced by the assessee against recovery of amount refunded to them on the observation, that it would be a pyrrhic victory for the Union of India, if they could not, in fact, recover tax.

3.6 **Arrears of Central Excise**

Arrears of central excise as on 31.10.2005 were Rs. 13,130 crore (Provisional), as compared to Rs, 11,553 crore as on 31.10.2004. Administrative, legal and persuasive measures are being taken to liquidate the arrears.

3.7 **Audit –Central Excise**

The observations/objections in regard to Central Excise and Service Tax, as stated in the note enclosed with O.M. F. No. 2100/E-Coord/2003 dt.7.12.2005 of Department of Expenditure, have been made in Report No.11 of 2005 of C & AG of India.

Before the aforesaid Report of the C & AG of India (i.e., No.11 of 2005), most of the matters appearing therein were received in the Ministry as Draft Audit Paras or System Review Paras (draft). These draft paras, as well as Report No.11 of 2005, have been duly examined in the Ministry and appropriate action taken, and on most of such matters, the Ministry's response to the C & AG of India has already been furnished.

The Ministry receives, on an average, 250 to 290 Draft Audit Paras on Central Excise and Service Tax matters from the C&AG of India every year, on which replies are required to be furnished on time-bound basis. Action Taken Notes (ATNs) on all the Audit Paras, included in the Audit Report of C&AG, are also required to be furnished to the C&AG.

During the current year, a total number of 288 Draft Audit Paras were received and the Ministry's comments on 245 DAPs have been sent to C&AG till date.

During the same period, Ministry's replies in respect of all the three Systems Appraisals of Report No.11 of 2004 of the C&AG of India were replied to Audit, which accounts for 100% disposal.

Apart from the above, the Ministry furnished replies to two Advance Questionnaires to Lok Sabha Secretariat.

During the year 2005-06, concerted efforts were made to furnish Action Taken Notes on pending Audit Paras and replies to C&AG's vetted comments/further observations on Audit Paras of previous years. Ministry's ATNs in respect of 100 DAPs contained in the various Audit Paras were furnished to the Audit, which accounts for 45 % disposal. Further, a total number of 24 Audit Paras were finally settled in the current year by C & AG of India.

Comments on the Specific Matters mentioned in the Summary of Important Audit Observations

With regard to the review on excise duty on motor vehicles for transport of persons and goods, Ministry has informed the C & AG of India that the excise duty reduction on motor vehicles was done for reducing disparity in excise duty rates. There is neither a direct linkage between duty reduction and price reduction nor there is any legal provision to ensure such price reduction consequent to reduction in duty. Besides, the price of a product is a function of several factors including cost of raw materials, labour, power, interest cost etc. Excise duty is only one element.

With regard to review on the working of Excise Audit -2000, it has been pointed out by the Audit that creation of database of assessee profile was not complete. The Ministry has replied that creation of database and assessees' profile in respect of most of the Commissionerates has been completed, and in respect of others, it is being taken up on priority. Audit was also informed that in the case of audits done under EA 2000 methodology, the average detection per audit as well as the average recovery per audit is much higher compared to audits done under the old methodology.

The C & AG of India has also pointed out that continued retention of exclusion clause relating to branded and export goods for reckoning eligibility limit of Rs. 3 crore, in the exemption notification relating to Small Scale scheme, benefited large manufacturers to derive unintended benefit of duty exemption. The Ministry has replied to the Audit that as full excise duty is charged on clearances of branded goods (i.e., ineligible for SSI exemption), and their inclusion would have affected the capacity utilization of SSI sector, it was decided to continue their exclusion from aggregate value of clearances. Similarly, inclusion of value of goods cleared for exports would have affected the capacity of SSI sector to contribute to exports, and it was decided to continue their exclusion from aggregate value of clearances. The intention of the government was to encourage the manufacturers to develop their own brands.

The C & AG of India has also pointed out that there were inadequate efforts by the Department to bring unregistered service providers into the tax net by way of survey and raids. The Ministry has stated that door-to-door survey and seminars were conducted at various venues on different dates by all the field formations. The Department had also started a special scheme for those people who wanted to register voluntarily, known as "extraordinarily friendly scheme for registration''. In addition to the above, other measures like advertisements for getting service tax registration in local dailies and organizing service tax registration *melas* were also under taken to bring unregistered service providers under the service tax net. As one of the measures to tone up the administration of the service tax matters on an all India basis, Board has created six exclusive Service Tax Commissionerates situated at Delhi, Mumbai, Chennai, Kolkata, Bangalore and Ahmedabad.

In regard to C&AG's comments that there was an ineffective monitoring of returns from registered service providers, the Ministry has replied that in most cases where assessees who have not submitted returns, letters/show cause notices have been issued. As a result, many of defaulters have filed their returns in subsequent months.

Provisional Assessment – Central Excise

Details of the Central Excise provisional assessment cases pending as on 31.10.2005, and the amount involved therein :

(Rupees in crore)

No of Cases	Amount Involved	Less than3 months	3 to 6 Months	6 to 12 Months	1 to 3 Years	Over 3 years
630	369.5	107	79	82	140	222

3.8 **Review Branch of CBEC**

Performance and Achievements during the Year

The Judicial Cell & Review Branch of CBEC services Member (L & J)'s office in handling of departmental appeals filed in Supreme Court against CESTAT orders, and also presenting the Department's cases before the Empowerment Committee with reference to departmental disputes against PSU's.

(1) In recent times, a conscious effort has been made to upgrade the quality of departmental appeals at all appellate forums. The thrust has been to overcome volumes and concentrate on sustainability of department's cases.

(2) In the Finance Act 2005, the powers of Review of Orders of Commissioners as Adjudicating Authority, from the point of view of filing appeals before CESTAT, has now been delegated to the Committee of Chief Commissioners under section 35 B of the Central Excise Act, 1944 and under section 129 A of Customs Act, 1962. The Committee of Chief Commissioners has been notified under the relevant rules.

(3) This is a step towards upgrading the quality of litigation and to avoid frivolous appeals.

(4) At the same time, a Control Mechanism has been put in place for timely response to Supreme Court litigation so that Department's cases are not dismissed on delay by the Supreme Court. In supersession of all earlier orders/circulars, the Board has issued Instructions No. 819/16/2005-CX dated 13/10/2005 to streamline progress made in filing appeals against order of the CESTAT before the Supreme Court. A flow-chart, along with optimum time limit, has been recommended for each level in filing appeal expeditiously within prescribed time limit.

Performance during the year 2004-05

1. Departmental Appeals:

Year	Number of C.A. Proposals received	Number of Appeals filed	Number of cases where CEGAT Orders accepted
2004-05	736	322	414

2. Party Appeals:

Year	No. of Appeals
2004-05	116

3. Departmental Disputes With PSU's:

(a) Processing of COD Proposals:

Year	Opening Balance	No. of Proposals Received	Total	No. of Proposals Disposed Off	Closing Balance
2004-05	90	230	320	293	27

(b) Progress In COD Meetings:

Year	No. of Meetings	PSU Cases	Departmental Cases	PSU Cases Allowed	Departmental Cases Allowed
2004-05	23	347	106	243	27

Performance/Achievements up to last year:-

1. Departmental Appeals:

Year	Number of C.A. Proposals received	Number of Appeals filed	Number of cases where CEGAT Orders accepted
2001-02	516	383	133
2002-03	565	248	298
2003-04	761	294	467

2. Party Appeals:

Year	No. of Appeals
2001-02	140
2002-03	123
2003-04	111

3. Departmental Disputes With PSU's:

(a) Processing of COD Proposals:

Year	Opening Balance	No. of Proposals Received	Total	No. of Proposals Disposed Off	Closing Balance
2001-02	-	132	132	75	57
2002-03	57	64	121	79	42
2003-04	42	232	274	214	60

(b) Progress In COD Meetings:

Year	No. of Meetings	PSU Cases	Departmental Cases	PSU Cases Allowed	Departmental Cases Allowed
2001-02	19	248	33	222	16
2002-03	22	240	85	130	14
2003-04	24	286	110	173	24

3.9 **Customs**

Arrears of Customs Revenue

- Arrears of Customs Revenue (Confirmed Demands) as on 30.11.2005 is Rs. 4209.76 crores. The Arrears of Revenue are kept under constant watch and all efforts are made to ensure their timely recovery.
- Circular No.24/2005-Cus. dated 2.6.2005, Circular No.32/2005-Cus. dated 28.7.2005, Circular No.35/2005-Cus. dated 22.8.2005 and Circular No.40/2005-Cus. dated 3.10.2005 have been prescribing guidelines for clearance of imported metal scrap.
- Circular No.31/2005-Cus. dated 25.7.2005 has been issued regarding movement of containers.
- Circular No.42/2005-Cus. dated 24.11.2005 and Circular No.43/2005-Cus dated 24.11.2005 has initiated the process of Risk Management System and introduction of Accredited Client Programme.
- Circular No.44/2005-Cus. dated 24.11.2005 has been issued regarding filling of import manifest.
- Circular No.45/2005-Cus. dated 24.11.2005 prescribe for waiver of Bank Guarantee by shipping lines.
- Circular No.46/2005-Cus. dated 24.11.2005 provides for automated movement of cargo from Gateway ports hinterlands without SMTP permission.
- Circular No.47/2005-Cus. dated 24.11.2005 has been issued regarding simplified bond module for custodianship and transshipment.
- Circular No.50/2005-Cus. dated 1.12.2005 has been issued regarding clearance of unclaimed cargo

- o Notification No.43/2005-Cus(NT) dated 6.6.2005, Notification No.44/2005-Cus(NT) dated 6.6.2005 and Notification No.53/2005-Cus(NT) dated 14.7.2005 have been issued regarding setting up of ICDs at Ravatha, Ongole and Mandideep respectively.

Ad-hoc Exemptions Orders

- o During the period 01-04-2005 to 29.12.2005, 34 ad-hoc exemption orders were issued. The total revenue foregone on this account was Rs.11.18 Crores (Approx).
- o Permission to Indian Nationals undertaking visit abroad to buy goods from duty-free shops at International Airports at India in Indian Rupees was issued from F.No.495/07/2005-Cus.VI dated 26th September,2005.
- o Notification No.75/2005-Cus(NT) dated 30th August,2005 has been issued regarding Amendment to Import / Export Manifest (Aircraft) Regulations, 1976 requiring submission of passengers data by airlines with a view to collect advance information about the passengers traveling with the airline.
- o Notification No.75/2005-Cus (NT) dated 30th August,2005 has been issued regarding Amendment to Import / Export Manifest (Aircraft) Regulations, 1976.
- o Circular No.51/2005-Cus. dated 9.12.2005 has been issued regarding simplified procedure for registration of EOU/EHTP/STP for clearance of import goods.
- o Notification No.31/2005-Cus(NT) dated 8th April,2005 has been issued amending Notification No.63/94-Cus(NT) dated 21.11.94.
- o Notification No.33/2005-Cus(NT) dated 20th April,2005 has been issued amending Notification No.62/94-Cus(NT) dated 21.11.94.
- o Notification No.71/2005-Cus(NT) dated 1st April,2005 has been issued amending Notification No.61/94-Cus(NT) dated 21.11.94.
- o Notification No.90/2005-Cus(NT) dated 4th October,2005 has been issued amending Notification No.61/94-Cus(NT) dated 21.11.94.
- o Notification No.91/2005-Cus(NT) dated 4th October,2005 has been issued amending Notification No.62/94-Cus(NT) dated 21.11.94.
- o Notification No.92/2005-Cus(NT) dated 10th October,2005 has been issued amending Notification No.61/94-Cus(NT) dated 21.11.94.
- o Notification No.93/2005-Cus(NT) dated 10th October,2005 has been issued amending Notification No.62/94-Cus(NT) dated 21.11.94.
- o Notification No.97/2005-Cus(NT) dated 27th October,2005 has been issued amending Notification No.63/94-Cus(NT) dated 21.11.94.
- o Notification No.108/2005-Cus(NT) dated 9th December,2005 has been issued amending Notification No.61/94-Cus(NT) dated 21.11.94.
- o Circular No.38/2005-Cus dated 28th September,2005 has been waiver of interest on re-export of warehoused goods under section 69 of the Customs Act,1962.
- o Circular No.1/2005-Cus dated 11th January, 2005 –this covers 10 agenda points which was deliberated in the tariff conferences of the chief commissioners of customs held at Kolkata on 22nd and 23rd January 2004 and Shillong from 13 to 15th May 2004. The issues are given below:-

(i) Classification of Pontoon upgraded as accommodation barge: It was decided to classify it under 8905since navigability was subsidiary to its main function.

(ii) Classification of parts of cellular phone - if all the parts are imported in a single consignment then it would be classified under 85252017 as complete mobile handset as per rule to a of the interpretative rule hence it would be ineligible for benefit under Sl.No. 319 or 320 of Notification No. 21/2002-Cus. dated 1.3.2002.

(iii) Eligibility of general purpose Labeling Machine under Notification No.21/2002-Cus., dated 1.3.2002 for use in Textile Industry: It has been decided that ‘general purpose labeling machine’ was eligible for exemption under S.No.250 of Notification No.21/2002-Cus., dated 1.3.2002, if it could also be used in the textile industry.

(iv) Eligibility of exemption under Notification No.94/96-Cus. for Fuel Injection Pump and Injectors exported and re-imported after fitment on Engines: it has been decided by the Board that fuel injection pumps and injectors exported and re-imported after fitment into engines are not covered by notification no.94/96-Cus., dated 16.12.96.

(v) Import of ACT test tubes - benefit as accessories of the ACT machine (Notification No. 21/2002-Cus. dated 1.3.2002, Sl. No. 363B): It has been decided by the Board that ACT test tubes are eligible for exemption under Notification No.21/2002-Cus., dated 1.3.2002 – Sl. 363 B (List 37, Sr.59).

(vi) Admissibility of benefit of Notification No. 6/2002- C.E., dated 1.3.2002 (sl.no.63) on “Dant Mukta” used in the manufacture of Lal Dant Manjan: It has been decided by the Board that ‘Dant Mukta’ is not eligible for benefit under Notification No. 6/2002-C.E., dated 1.3.2002, Sl.No.63.

(vii) Admissibility of Exemption under Notification No. 21/2002-Cus. (Sr. No. 356) for items namely Inflatable Life Raft & Life Jackets supplied along with Vessel: The Board has decided that the benefit of the referred notification(s) would be available on the import of inflatable life jackets and life rafts considering these as essential parts for the manufacture of ships.

(viii) Scope of the exemption vide Notification No.80/70-Cus., dated 29.08.1970, as amended: It has been decided by the Board that benefit of Notification No. 80/70-Cus., dated 29.8.1970 would not be extended to import of warranty replacements by companies or commercial organizations.

(ix) Classification of used steel rails for re-rolling Under CTH 7204 or 7302 and whether freely Importable: It has accordingly been decided by the Board that used steel rails for re-rolling were appropriately classifiable under CTH 7204 and these were freely importable

(x) Classification of Mobile Pen/Pen Drive: It was clarified vide Circular No. 28/2005-Cus. dated 1st July 2005 regarding classification of Mobile Pen/Pen Drive, the essential character of the pen drive is imparted by the storage + drive functions. Hence, the appropriate classification of the complete set would be under Tariff item 8471 70 90 which covers storage units.

(xi) Classification of CPU Cooler Fan with Heat sink: It was clarified vide Circular No. 36/2005-Cus. Dated 2nd September 2005 that the Classification of CPU Cooler Fan with Heat sink has been revised to sub-heading 8473.30 instead of Tariff item 8414 59 10.

(xii) Import of Boric Acid: It was clarified vide Circular No. 37/2005-Cus dated 6th September 2005 in respect of Import of Boric Acid that the Board’s Circular No. 61/2004 dated 28th October, 2005 stands modified to the extent that import of Boric Acid for non insecticidal use may be allowed only on the basis of import permit issued by Central Insecticide Board & Registration Committee (CIB&RC) under Ministry of Agriculture on the basis of recommendation of the nodal Administrative Ministry.

(xiii) Computer Casing and Power Supply Unit imported together: It was clarified vide Circular No. 39/2005-Cus. Dated 3rd October, 2005 regarding extension of benefit of Notification 21/2002-Cus., dated 1.3.2002, Sl.No. 276, to Computer Casing and Power Supply Unit imported together, that the goods have to

be classified in the form as presented and rule 2 (a) of the GIR cannot be applied for the sake of allowing/disallowing the benefit of a notification, unless the exemption notification is based on classification of the item under a particular heading of the Customs Tariff. For the purpose of classification, Rule 2(a) of the General Rules of Interpretation could be applied.

(xiv) Disposing of applications filed under subsection (2)of section 9AA of Customs Tariff Act, 1975: Notification No. 37/ 2005-Customs (N.T) dated 5th May, 2005: To appoint the Assistant Commissioner /Deputy Commissioner of Customs, group 2 B-1 in the Commissionerate of Customs (Imports), Mumbai to exercise the powers and discharge the duty of AC/DC of Customs (refund) for the purpose of disposing of applications filed under subsection (2)of section 9AA of Customs Tariff Act, 1975.

(xv) Notification No. 80/2005-Customs (N.T) dated 20th September 2005: Appointment of Shri D.S.Sra, Chief Commissioner as DG (Safeguards).

(xvi) Notification No. 81/2005-Customs (N.T) dated 20th September, 2005: Appointment of Shri D.S.Sra, Chief Commissioner as DG (Specific Safeguards).

*(xvii)Initiatives taken for facilitating imports and exports:*During the year several initiatives have been taken for facilitating imports and exports. Emphasis has been given for simplifying the procedures while not compromising the interests of revenue. The most significant achievement was to notify new drawback rates for 2005-06. The new All Industry Duty Drawback Schedule came into force w.e.f. 5th May, 2005. Amendments have been made in the Schedule vide notification Nos. 77/2005-Cus. (NT) dated 2.9.2005, 82/2005-Cus. (NT) dated 26.9.2005, 101/2005-Customs (NT) dated 17.11.2005 and 102/2005 Customs (NT) dated 18.11.2005 to make it user-friendly.

(xviii) Export promotion schemes to support and promote exports: The Government has formulated a number of export promotion schemes to support and promote exports. The policy frame-work is laid down in the Foreign Trade Policy, 2004-09 whereas, the procedures governing the schemes are detailed in the Handbook of Procedure, Vol. I, 2004-09. The Department of Revenue has issued notifications to implement the provisions of the Foreign Trade Policy 2004-09 and also the policy initiatives taken in the Annual Supplement to the Foreign Trade Policy 2004-09.

Initiatives and Procedural Simplification Measures taken by Drawback Division of Customs Wing

(i) Policy Initiatives in respect of All Industry Rates of Duty Drawback

New Duty Drawback Rates for the year 2005-06 have been formulated after extensive consultations with the various Ministries/ Departments of the Government of India, industry & trade associations and other stake holders.

The drawback rates have been determined on the basis of certain broad parameters including, inter alia, the prevailing prices of inputs, standard input/ output norms (SION) published by DGFT, share of imports in the total consumption of inputs and the applied rates of duty. As education cess is being collected as duties of excise/customs, the element of education cess has been factored in the drawback rates. The incidence of duty on HSD/Furnace Oil has also been factored in the drawback calculation.

As a conscious policy decision, barring a few exceptions, the rates on all export products have been expressed in ad valorem terms in lieu of earlier specific rates, i.e. Metric Tonne / kg etc. Though the weight based drawback is reported to be less vulnerable to abuse, the ad valorem rates have the dual virtue of first being fair to the exporters and secondly, serve the policy objective of encouraging the export of value added items.

The new Drawback Schedule is fully aligned with the HS Nomenclature at the four-digit level. While for major export items the drawback rates have been worked out at four-digit/six digit/ eight digit level, for others a mixed classification, based on precedent and convenience, has been used for prescribing the drawback rates. In several cases, a residual entry has been created so that no export item is left out from a particular heading.

The new Drawback Schedule now covers about 2620 entries comprising 685 entries at the four-digit level and 1935 entries at the six-digit/eight-digit/modified six/eight-digit level. Though the entries add to a total of 2620 only, the number of manufactured products covered by these entries would be many times this figure. In terms of product coverage, the new Schedule has much wider scope in comparison with the previous Schedule, which covered about 1050 entries only. The new Schedule now covers several new products in chemicals, plastics, textiles, and steel and machinery sectors. Apart from transparency and wide coverage, it would now be easier to compile revenue foregone figures tariff line-wise. Communication with various agencies dealing with international trade will, henceforth, be smooth.

(ii) Policy Initiatives in respect of Brand Rate of Duty Drawback

Brand rate of duty drawback is granted in terms of Rules 6 & 7 of Drawback Rules, 1995 in cases where the export product does not have any All Industry Rate of Drawback or where the All Industry Rate notified is considered by the exporter as inadequate to compensate the customs & central excise duties suffered on inputs used in the manufacture of the export product.

In recent months, many representations were received from trade and industry alleging inordinate delays in fixation of brand rates. For expeditions disposal of brand rate application the facility of Revised Simplified Scheme has been extended to a selected category of exporters, namely : (a) all exporters who have an export turnover (physical exports) of Rs. 5 crores in current or preceding financial year and having a good track record of three years of exports; (b) public sector undertakings; (c) Star Export House; (d) manufacturer-exporters registered with Central Excise, who have been exporting during the previous two financial years and have minimum export of Rs. 1 crore or more during the preceding financial year; (e) manufacturer-exporters registered with Central Excise, who have paid central excise duty of Rs. 1 crore or more during the preceding financial year.

The essence of the Revised Simplified Scheme is that the drawback rates are to be fixed without pre-verification of the data (which should be duly verified and certified by the applicant and Chartered Accountant/Chartered Engineer/Cost Accountant) and the exporter would be authorized by provisional brand rate letters to claim the drawback rate considered admissible from the concerned Custom House (s). The data submitted would be subject to post-facto checking by the Department for its authenticity and the rates fixed are also subject to revision on the basis of such post-facto verification.

In the case of other exporters i.e. other than these five categories, the normal procedure for fixation of brand rate will apply. It has been decided that these exporters may be granted All Industry Rate in respect of applications filed under Rule 7 (Special Brand Rate) pending verification and fixation of brand rates.

A special drive has been launched for disposal of the pending claims. The Chief Commissioners have been asked to bestow personal attention so as to ensure that the pendency of claims is reduced to the barest minimum.

(iii). Reduction in Export Documentation – Abolition of Various Declarations.

In the wake of representations from the trade and industry that the present export documentation procedure is complex and cumbersome and that under the system the exporters are required to submit a large number of documents and declarations to the Customs, causing delays and adding to the transaction cost, the Government had set up a Sub-Committee under the chairmanship of the Chief Commissioner of Customs, Delhi to study the problem in all its aspects and make recommendations. In pursuance of the recommendations of the Sub-Committee, vide Circular No. 34/2005-Cus. dated 5.08.2005, 21 declarations out of 36 declarations filed by the exporters for exports under drawback and various export promotion schemes have been abolished as a measure of trade facilitation.

(iv). Provisional Release of Export Goods.

It was brought to the notice of the Board that sometimes goods entered for exportation are detained or seized by the field formations for mis-declaration of quantity, value, etc. Such goods are not allowed to be exported even on a provisional basis pending completion of investigation, adjudication or appeal proceedings. However, these proceedings usually take a considerable time to conclude; in the meanwhile, the goods deteriorate and lose their intrinsic value. Consequently, issues like payment of demurrage charges to the custodians and export benefits to the exporters arise. Detention or seizure of goods also adds to congestion in ports, ICDs, etc.

Having regard to the problems associated with the seizure of export goods, the Board has issued instructions that except for prohibited/contraband goods, the seized goods should be released provisionally and allowed to be exported on execution of a bond.

(v) Implementation of the Foreign Trade Policy, 2004 – 2009, Annual Supplement to the Foreign Trade Policy, 2004-09 and Drawback Schedule:

1. Notification No. 32/2005-Customs dated 8.4.2005 was issued to operationalise the Target Plus Scheme announced under the Foreign Trade Policy 2004-09. Under this Scheme the Star Export Houses get rewards in the form of duty credit based on incremental exports. The objective of the scheme is to help accelerate growth of exports.

2. Notification No. 36/2005-Customs (NT) dated 02.05.2005 was issued to notify new drawback rates for 2005-06. The new All Industry Duty Drawback Schedule came into force w.e.f. 5th May, 2005. Notification No. 36/2005-Customs (NT) dated 02.05.2005 was amended by Notification No. 101/2005-Customs (NT) dated 17.11.2005 and Notification No. 102/2005-Customs (NT) dated 18.11.2005 for modifying the drawback rates & caps and for making Schedule user-friendly.

3. Notification No. 41/2005-Customs dated 9.5.2005 was issued to operationalise the Vishesh Krishi Upaj Yojana (Special Agricultural Produce Scheme) announced under the Foreign Trade Policy 2004-09. Under this Scheme exporters of fruits, vegetables, flowers, minor forest produce, dairy, poultry and their value added products get entitlement for duty credit scrip equivalent to 5% of FOB value of the exports. The objective of the scheme is to help promote the exports of above agricultural products.

4. Notification No.46/2005-Customs dated 17.5.2005 was issued to extend the operation of various export promotion schemes to the sea port at Porbandar, Rajasansi (Amritsar) Airport and all Special Economic Zones (SEZs) notified under Section 76(A) of the Customs Act, 1962. It also amends various notifications to operationalise the policy provisions announced in the Annual Supplement to the Foreign Trade Policy, 2004-09.

5. Notification No. 47/2005-Customs dated 17.5.2005 was issued to amend notification No. 21/2002-Customs dated 1.3.2002 so as to grant duty exemption to specified goods used in the processing of sea food.

6. Notification No. 77/2005-Customs dated 22.8.2005 was issued to extend the operation of export promotion schemes at ICD, Tuticorin.

7. Notification No. 89/2005-Customs dated 4.10.2005 was issued to exempt the goods imported into India under the Duty Entitlement Pass Book (DEPB) Scheme subject to fulfillment of conditions specified therein. This notification is valid until 31.12.2005.

8. Notification No. 97/2005- Customs dated 17.11.2005 has been issued to amend the operation of various export promotion schemes to the airport at Lucknow (Amausi), ICDs at Kundli, Bhadohi and Raipur, Land Customs Stations at Nepalganj Road, Agartala & Sutarkhandi and Amritsar Rail Cargo. This notification also amends Notification No. 53/2003-Cus. Dated 1.4.2003 earlier issued under Duty Free Credit Entitlement (DFCE) Scheme so as to enable availment of drawback or cenvat benefit on the element of additional duty of customs (CVD) paid through debit in the DFCE licence.

Audit –Customs

Review on Inland Container Depots: (ICD)

This Review was taken up for Oral hearing by PAC, and same has been completed. After Oral hearing, Action Taken Note has been forwarded to PAC.

Review of Recovery of Arrears

This Review was converted to Advance Questionnaire by PAC. Ministry has furnished the reply to Advance Questionnaire.

3.10 **Anti-Smuggling**

(A) Anti-smuggling performance of on All India basis and DRI in respect of seizure cases custom duty evasion cases, commercial fraud cases during the year 2004-05 and 2005-06 is as under:-

Seizure Cases

(Outright smuggling cases)

(Value Rs. In Crores)

YEAR	ALL INDIA (Including DRI)		DRI		DRI's Performance as % of All India
	Number of cases	Value of goods Seized	Number of cases	Value of goods Seized	
2004-05	45424	859.30	293	402.40	46.82
2005-06 (upto Nov.)	24112	458.97	230	148.66	32.38

Customs Duty Evasion Cases

(Figures based on show cause notice issued)

(Value Rs. In Crores)

YEAR	ALL INDIA (Including DRI)		DRI		DRI's Performance as % of All India
	Number of cases	Duty Demanded	Number of cases	Duty Demanded	
2004-05	1036	1080.40	430	881.20	81.56
2005-06 (upto Nov.)	417	593.97	113	431.72	73

Seizures of Selected Commodities

(Rs. in crores)

S.No.	Commodity	2004-05		2005-06 (Upto Nov.)	
		All India	DRI	All India	DRI
I	**Gold**	1.61	0.00	0.59	0.00
II	**Foreign Currency**	17.55	0.72	3.02	1.10
III	**Narcotic Drugs**	46.27	24.63	20.67	10.76
IV.	**Electronic Items**	21.63	32.69	28.23	23.06
V	**Computers / Parts**	2.22	0.08	3.17	0.28
VI	**Fabrics/ Silk Yarn etc.**	29.19	8.14	3.50	3.35
VII	**Bearings**	11.11	10.39	0.01	0.00
VII	**Diamonds**	4.28	1.17	0.89	0.70
IX	**Indian Currency**	7.57	0.26	1.52	1.48
X	**Watches / Parts**	4.00	0.55	0.69	0.39
XI	**Machinery / Parts**	106.79	48.22	4.46	3.89
XII	**Veh. / Vess. / Air-crafts**	21.76	1.47	39.81	36.00
XIII	**Indian Fake Currency**	0.47	0.47	0.04	0.00
	Misc	584.85	288.11	352.37	*67.65
	Total	593.97	402.40	593.97	593.97

[*]Includes Red Sander Wood 15.53crores.

Anti-Evasion Performance (Scheme-wise)
(on the basis of Show Cause Notices issued)

(Rs. in crores)

S.No.	Scheme	2004-05		2005-06 (Upto Nov.,05)	
		All India	DRI	All India	DRI
1.	Under Valuation	121.78	84.25	25.22	17.36
2.	Mis-declaration	88.41	34.60	67.64	59.00
3.	Mis-use of DEEC/ Advance License	107.13	72.06	144.65	67.10
4.	Mis-use of DEPB	277.52	267.65	30.04	25.43
5.	Mis-use of EPCG	7.16	5.99	3.24	0.00
6.	Mis-use of EOU/EPZ/SEZ	324.64	305.17	225.80	207.01
7.	Mis-use of End-use & other notfn.	56.16	45.00	22.31	11.45
8.	Drawback	62.80	37.96	54.43	30.76
	Duty Recovered	234.21	154.47	103.04	49.99

Anti-Smuggling Performance of DRI & All India During 2004-05 & 2005-06 (Upto Nov', 2005) of Seizure Cases

(Rs. in Crores)

Chief Commissionerate	Seizure Cases	
	2004-05	2005-06 (upto Nov.05)
DRI	402.20	148.66
AHMEDABAD CUSTOMS	86.43	91.14
BANGALORE CUSTOMS	23.40	5.50
CHENNAI CUSTOMS	67.74	49.52
CHENNAI CUSTOMS (PREV)	15.36	5.30
DELHI CUSTOMS	28.72	46.68
DELHI CUSTOMS (PREV)*	9.36	4.38
KOLKATA CUSTOMS	36.42	16.51
MUMBAI-I CUSTOMS	42.41	4.47
MUMBAI-II CUSTOMS	28.63	34.17
MUMBAI-III CUSTOMS	46.49	10.70
PATNA CUSTOMS (PREV)	16.87	16.77
COCHIN C. EX.& CUS*	6.30	0.76
V'PATNAM C.EX. & CUS.	2.20	0.06
PUNE C. EX.	5.83	0.42
SHILLONG C.EX. & CUS	30.45	23.77
BHOPAL C & C.EX.	1.38	0.05
HYDERABAD C.EX & CUS*	8.80	0.05
NAGPUR C.EX. & CUS.	0.10	0.00
B'NASHWAR C.EX. & CUS.	0.02	0.00
OTHERS**	0.00	0.06
TOTAL	**859.31**	**593.97**

* *Fiures are upto Sept'05(Reports not received)*

** *Ranchi, Lucknow, Meerut (0.06crores upto Sept'05).*

Anti-Smuggling Performance of DRI & All India During 2004-05 & 2005-06 (Upto Nov. 2005) of Commercial Fraud Cases

(Rs. in crores)

Chief Commissionerate	Commercial Fraud Cases	
	2004-05	2005-06 (upto Nov.05)
DRI	881.20	431.72
AHMEDABAD CUSTOMS	26.52	23.74
BANGALORE CUSTOMS	22.57	72.92
CHENNAI CUSTOMS	3.70	2.47
CHENNAI CUSTOMS (PREV)	8.34	1.11
DELHI CUSTOMS	10.91	4.98
DELHI CUSTOMS (PREV)*	33.40	1.04
KOLKATA CUSTOMS	12.03	26.84
MUMBAI-I CUSTOMS	1.51	1.07
MUMBAI-II CUSTOMS	17.38	9.86
MUMBAI-III CUSTOMS	33.21	2.88
PATNA CUSTOMS (PREV)	0.00	0.00
COCHIN C. EX.& CUS*	0.00	2.07
V'PATNAM C.EX. & CUS.	2.21	0.12
PUNE C. EX.	0.00	0.00
SHILLONG C.EX. & CUS	0.00	0.00
BHOPAL C.& C.EX.	0.00	0.00
HYDERABAD C.EX.& CUS.*	23.30	2.89
NAGPUR C.EX.& CUS.	4.09	0.08
B'NASHWAR C.EX. & CUS.	0.00	0.00
OTHERS**	0.05	10.18
TOTAL	**1080.4**	**593.97**

* *Figures are upto Sept. '05 (Reports not received)*

** *Ranchi, Lucknow, Meerut.*

Duty Realized On All India Basis & By DRI

(Rs. in crores)

YEAR	ALL INDIA	DRI	% of DRI's Performance
2004-2005	234.21	154.47	65.95
2005-2006	103.04	49.99	48.51
UPTO NOV'05			

Narcotic Drugs Seizures By DRI (In Kg.)

Name of the Drug	2004	2005(upto Nov.05)
Heroin	87.165	114.348
Ganja	27442.15	15156.30
Hasish	2804.50	1443.00

B) **Anti-Smuggling Equipment Procurement during the Period from 1.4.2005 to 21.12.2005**

a) Truck / Container Scanning System

One Pilot Project for installation of two container scanners at Jawaharlal Nehru Port, Nhava Sheva was completed. As part of the project, One X-ray based fixed system was installed and operationalised on 17.06.2005. One Gamma Ray based mobile scanner had already been deployed. The two scanners have been installed at an equipment cost of Rs. 39.58 crores.

b) X-Ray Baggage Inspection Systems (XBIS)

At present 135 Nos. of X-Ray Baggage Machines are functioning at various locations in the country. All the machines remained under Centralised Comprehensive Annual Maintenance Contract (CCAMC) with the supplier M/s ECIL Rapiscan. Process for procurement of 58 X-Ray Baggage machines is underway.

Considering urgent need of machines at some locations, two machines i.e. one from CFS JNPT, Nhava Sheva to UB Centre, Karipur and another from UB Centre, Karipur to Calicut Airport were shifted and installed in the respective places. One more machine has been diverted from CC Amritsar (Attari Rail) to CC, J&K (for Uri Land Customs Station between J&K & PoK).

c) Door Frame Metal Detectors

Ten Door Frame Metal Detectors (DFMD) were deployed at different Customs & Central Excise formations.

d) Vehicles

A total amount of Rs. 1,27,90,000/- has been released from the Special Equipment Fund towards purchase of 25 Ambassador Cars, 2 Maruti Gypsy / Jeeps and 12 Hero Hondo Motorcycles for DRI and its field formations during the financial year 2005-06.

e) Customs & Central Excise Welfare Fund – Modifications/ New Schemes

(I) The scheme of grant of 200 number of scholarships for pursuing higher education has been revised as follows:

i) Amount of scholarship revised to Rs. 18,000/- or total tuition fee paid per year, whichever is less,

ii) Children of Group 'A' have also been included for the purpose of eligibility for scholarships under the revised scheme provided the annual salary of the officer is less than Rs. 3.5 lakh.

Three more All India Entrance Tests added to the list of eight Tests listed under para 1 of the earlier scheme. Thus the number of All India Entrance Tests now under the purview of the scheme is 11 instead of 8.

(II) The scheme of grant of one time cash award to the meritorious students for their performance in class Xth & XIIth Board exam of the wards of the Departmental officers / staff has been revised as follows:

i. In case the number of eligible children exceeds the number of awards available in each category, then the award money should be equally distributed amongst all the eligible children subject to the condition that, the minimum cash award to the children of Group 'D' staff will be Rs. 2,500/-.

ii. The scheme will be also applicable to the children of deceased officers / staff from the academic year 2004-05. In case of these children, the jurisdictional Commissioner who will forward the application will be the one from whose office the deceased officer's family is drawing the pension or in whose jurisdiction the family is residing.

f). Marine Vessels

There are 106 vessels with the department which includes 17 CPCs, 07 CACs, 12 CPLs , 67 CPTs & 03 CPDs. These vessels are allotted to Maritime Commissionerates to undertake anti-smuggling operations.

The Global Tender for acquisition of 109 vessels at an estimated cost of Rs. 153.85 Crores approved by CCEA floated on 15.6.2005. The bids were received on 15 Sept. 2005.

g) FRBM Act

An Asset Register has been prepared listing assets in the form of anti-smuggling equipment and vehicles with the department (of book value more than Rs. 2 lakh). The total book value of such assets is approx Rs. 167 crores.

(C) Functions of Anti-Smuggling Unit

- All policy matters relating to search, seizure, arrest, and prosecution under the Customs Act 1962, reward to informers and Govt. servants, and disposal of seized/ confiscated goods.
- Parliament Questions /Assurances relating to anti-smuggling matters.
- VIP references from Ministers, M.P.s etc., and representations/ complaints from public relating to search/seizure/arrest etc., and disposal of seized/ confiscated goods.
- Audit paras relating to search/seizure/arrest/ prosecution, reward to informers and Govt. servants, disposal of seized/confiscated goods.
- Fixation of targets for DGRI/Chief Commissioners with regard to seizures in outright smuggling cases, detection of customs duty evasion cases, and disposal of seized/ confiscated goods.
- Analysis and evaluation of monthly/periodic reports from DGRI/Chief Commissioners regarding anti-smuggling performance, trends in smuggling, and anti smuggling measures being taken.
- Analysis and evaluation of reports from COIN units.
- Analysis and evaluation of monthly/periodic reports from Chief Commissioners regarding disposal of seized/ confiscated goods.
- Court matters relating to search, seizure, arrest, rewards and other miscellaneous anti-smuggling matters.
- Implementation of recommendations of Standing Committees, Group of Ministers etc., concerning anti-smuggling matters.
- References received from other Ministries/ Departments/ Sections concerning anti-smuggling matters.
- Preparation of material on anti-smuggling matters for Parliamentary Committees.
- Procurement of anti-smuggling equipment such as XBIS/ metal detectors/ binoculars etc., as well as vehicles for all C.B.E.C field formations.
- Procurement of Marine vessels and Container scanners.
- Allotment of NPB customs confiscated weapons to MPs/ VIPs.
- Presidential Awards for meritorious service; holding of Investiture ceremony.
- Representations from trade associations etc., regarding notified and specified goods under Chapter IV A and IV B.

3.11 Printing Publications and Publicity

The Directorate of Publicity & Public Relations, an attached office to CBEC, is headed by a Commissioner, who is overall in-charge of this Directorate having all administrative and financial powers. Besides, the administrative set-up consists of two Additional/Joint Commissioners and three Asstt. Commissioners, who supervise the work of subordinate staff.

This Directorate has got no Zonal/Branch Office.

The functions assigned to this Directorate, in brief, are given in the Annexure.

3.12 **Activities of the Directorate General of Inspection (Customs & Central Excise) (DGICCE)**

The functions, in brief, assigned to this Directorate General, are given in the Annexure.

The Headquarters of the Directorate is situated at New Delhi, which exercises control over the following regional units:

1.NRU – North Regional Unit, Delhi.

2.SRU – South Regional Unit, Chennai.

3.ERU - East Regional Unit, Kolkata.

4.CRU- Central Regional Unit, Hyderabad.

5.WRU- West Regional Unit, Mumbai.

The DGCCE conducts inspections of the Central Excise Commissionerates and Custom Houses spread all over the country. The regional units of the Directorate conduct inspections of the field formations in their respective jurisdiction as per the Annual Inspection Programmes drawn.

Examinations conducted by DGICCE, New Delhi during the year 2005 (Upto 23.12.2005)

i. Customs House Agent Licensing Regulation Examination on 29th September 2005.

Following examinations were conducted by NACEN, Chennai in which candidates appeared from DGICCE and its cadre units (examination centre DGICCE, New Delhi).

ii. Departmental Examination for the promotion to the Grade of Inspector held on 05.01.05 and 06.01.2005.

iii. Departmental Examination for the promotion to the Grade of Sr. Tax Assistant held on 7.1.2005.

iv. Departmental Examination for the promotion to the Grade of Inspector held on 12.07.05 and 13.07.05.

Inspections carried out by the DGICCE during the year 2005– 2006 (upto 30th November 2005

An important function of the DGICCE is to inspect the offices in the field formations such as Commissionerate Hqrs., and Divisional Offices, in addition to the internal inspections carried out by the Commissionerates themselves.

During the year 2005– 2006 (upto 30th November, 2005), the Hqrs office OF Directorate conducted the inspections in the Central Excise Commissionerates, across the country, as shown in the Table below:

Sl.No.	Dates of Inspection	Name of Commissionerate
1	24.5.2005 to 31.5.2005	Kolkata – VI
2.	27.7.2005 to 3.8.2005	Bangalore - I
3.	5.9.2005 to 9.9.05	Jaipur – II
4.	26.9.05 to 30.9.05	Chennai - III
5.	17.10.05 to 21.10.05	Kanpur
6.	28.11.05 to 2.12.05	Bhopal
7.	8.8.05 to 13.8.05	Aurangabad
8.	3.10.05 to 7.10.05	Faridabad
9.	13.11.05 to 18.11.05	Vishakhapatnam - I
10.	5.12.05 to 9.12.05	Ranchi
11.	August, 2005	Delhi - I
12.	17.10.2005 to 21.10.2005	Pune - I

The inspection reports were sent to the Commissionerates concerned for follow-up action. The inspection reports in respect of Ranchi, Vishakhapatnam and Pune are under preparation/ finalization and will be sent shortly.

Studies and Reports by the Directorate

The DGICCE compiles Monthly Technical Reports (MTRs) which have been received from 93 Central Excise Commissionerates, and submit them, with analysis, to the Board for further action. The reports contain information, including statistical data, on the following items of work;

1. Arrears of Revenue;
2. Court Cases;
3. Prosecution cases;
4. Adjudication;
5. Provisional Assessments;
6. CERA Objections;
7. Internal Audit Objections;
8. Call Book Cases;
9. Refunds;
10. Unconfirmed Demands;

Monthly Adjudication Report pending for more than one year, and also cases involving revenue of more than Rs. one crore, is also being compiled and forwarded to the Board.

During the period, three studies have been carried out, and reports were submitted to the Board with findings and recommendations. The same are as under:-

1) Clearances of cigarettes to the Duty Free Customs Shop;
2) Comments on Taxation Laws Amendment Bill, 2005 and pre-budget study and Commodity Manual;
3) Works and Duties of Range Officers (under process – likely to be submitted);
4) Reports on Commodity Manual

Nepal and Bhutan

The DGICCE deals with the rebates of Central Excise duties to Nepal and Bhutan. From April, 2005 till 15th December 2005, 33,687 invoices have been processed involving an amount of Rs.84.19 crore. Overall, 65,000 invoices are expected to be processed during the year. Refunds of Bhutan amounting to Rs.50 crore, was also finalized after visit to Bhutan by the officers of the Directorate General.

Performance of Customs Wing of DGICCE:

Preparation and Submission of :-

(a) The Customs Monthly Technical Report to the Board in respect of different items of work on All-India basis.

(b) Reports of Adjudication cases involving an amount of more than Rs. One Crore and more than one year

(c) Quarterly report on ATA Carnet.

Inspections:-

List of Inspections conducted during the year 2005 till December 2005 by the Customs Wing of the Directorate Headquarters:-

Sl.No.	Dates of Inspection	Name of Commissionerate
1.	11.4.05 to 25.4.05	C.Ex. Commissionerate, Gurgaon
2.	25.7.05 to 5.8.05	Kolkata Customs
3.	2.9.05 to 7.9.05	Delhi Airport including UAB
4.	19.9.05 to 23.9.05	FPO Delhi
5.	26.9.05 to 30.9.05	Delhi Export
6.	3.10.05 to 7.10.05	Amritsar Comm.
7.	17.10.05 to 21.10.05	Chennai (Import)
8.	24.10.05 to 28.10.05	Jodhpur(P)
9.	14.11.05 to 18.11.05	Jaipur(Air Cargo & Airport)

Implementation of Official Language Policy in DGICCE

The Directorate General of Inspection is an attached office of CBEC. In order to fulfill the obligatory requirements of the Constitution and Official Language Rules, a Hindi Cell has been formed in the office consisting of one Assistant Director (Official Language), one Senior Translator and two Junior Translators. The Cell is engaged in implementation of the Official Language Policy in Headquarters Office of DGICCE, and also working as a nodal agency for coordination between Ministry/Board and 155 attached/ subordinate offices of CBEC.

Following are the main achievements of the Hindi Cell:

- All translation work of DGICCE from English to Hindi and *vice versa*, which includes translation of General Orders, Circulars, and Reports etc.
- As Member of Official Language Implementation Committee of Department of Revenue, Ministry of Finance, attending quarterly meeting and reporting progress of Hindi in Headquarters office as well as field formations of CBEC.
- Convened meeting of Official Language Implementation of Committee of DGICCE in every quarter wherein position of implementation of Official Language Policy and targets of Annual Programmes were reviewed.
- One Hindi workshop was organized on 14 and 15.12.2005 to impart training to transact day-to-day business in Hindi.
- Adequate number of employees/members of staff was sponsored for Hindi Typing/Hindi Stenography training.
- In order to promote Hindi noting and drafting, cash award scheme of Govt. of India, is implemented in the office and cash award are distributed in the Annual function every year.
- Hindi day/week was celebrated in the office during which various competitions were held such as noting-drafting, Hindi Essay etc. Winners in these competitions were

given prizes and cash awards at the end in concluding function. The prize distribution including cultural programmes were held at Rajendra Bhawan, New Delhi.

- o The DGI office is notified office under Rule 10(4) of the Official Language Rules and three sections namely Estt. Accounts and Customs Section have been specified for doing entire work in Hindi under Rule 8(4) of Official Language Rules, 1976.
- o All officers and staff of the DGICCE are proficient in Hindi and actually transact their work in the Official Language and work done by them in Hindi is reported periodically to ADG/DG through AD(O.L.). As a result of constant vigil and watch on Hindi work the overall correspondence has been reached 79%. Target of 50% noting in Hindi has achieved. Most of the sections are doing more than 50% noting in Hindi in files.
- o This Directorate has received Rajbhasha Shield for this year from the Ministry of Finance also.
- o The Hindi Cell has conducted 38 Inspections in the year 2005 regarding implementation of official language in the various Commissionerates and Directorates. 9 Manuals have also been published in Hindi & 3 manuals are under o translation in Central Translation Bureau, New Delhi.

Annexure

(Ref. Para.3.1.8)

Attached/Subordinated Offices of CBEC, under the re-organised set-up and their functions in brief

S.No.	Name of the Office	Functions
1.	Directorate of Central Excise Intelligence	• To collect, collate and disseminate intelligence relating to evasion of central excise duties; • To study the price structure, marking patterns and classification of commodities vulnerable to evasion of central excise duties; • To coordinate action with other departments like Income Tax etc. in cases involving evasion of central excise duties; • To investigate cases of evasion of Central excise duties having inter-Commissionerate ramification; and • To advise the Board and the Commissionerates on the modus operandi of evasion of central excise duties and suggest appropriate remedial measures, procedures and practices in order to plug any loopholes.
2.	Directorate of Revenue Intelligence	• To study and disseminate intelligence about smuggling; • To identify the organized gangs of smugglers and areas vulnerable to smuggling, targeting of intelligence against them and their immobilization; • To maintain liaison with the intelligence and enforcement agencies in India and abroad for collection of intelligence and in-depth investigation of important cases having inter-Commissionerate and international ramification; • To alert field formations for interception of suspects and contraband goods assessment of current and likely trends in smuggling; • To advise the Ministry in all matters pertaining to anti-smuggling measures and in formulating or amending laws, procedures and practices in order to plug any loopholes; and, • To attend to such other matters as may be entrusted to the Directorate by the Ministry or the Board for action/ investigation.
3.	Directorate of Inspection	• To collect, collate and disseminate intelligence relating to evasion of central excise duties; • To study the price structure, marking patterns and classification of commodities vulnerable to evasion of central excise duties; • To coordinate action with other departments like Income Tax etc. in cases involving evasion of central excise duties; • To investigate cases of evasion of Central excise duties having inter-Commissionerate ramification; and • To advise the Board and the Commissionerates on the modus operandi of evasion of central excise duties and suggest appropriate remedial measures, procedures and practices in order to plug any loopholes.
4.	Directorate of Housing and Welfare	• To monitor and coordinate with the Board, Ministry and field formations; • To help the field formations in framing the project proposals; • To assist the field formations in implementation of approved projects by providing technical support in respect of integrated and architectural planning, standardization of house building designs; • To devise procedures for accounting and documentation system; • To coordinate with the filed formations with regard to the problems of encroachment and abandoned properties;

- To prepare and compile Housing Manuals for future guidelines;
- To keep the filed formations informed about various schemes and facilities available;
- To have regular coordination and interaction with the Central Building Research Institute, Roorkee for getting their guidance on building science with reference to different projects and to have liaison and coordination with Housing Boards, architects and builders to ensure quality construction in scheduled time-frame;·
- To encourage environment friendly planning and execution of the projects of the department through horticultural and other environmental planning and·
- To coordinate with the Ministry on welfare measures related to building/acquisition of library, guest houses, resorts/holiday homes, conference rooms, playgrounds, godowns, garages etc.

5. National Academy of Customs, Excise and Narcotics
   - o To impart training to direct recruits and to arrange refresher courses for departmental officers;
   - o To assist in formulation of training policies and to implement the policies approved by the Board by devising schemes and syllabi of studies for training of direct recruits and departmental officers; and,
   - o To arrange study tours of customs and excise officers from neighboring countries under United Nations Development Programme.
6. Directorate of Vigilance
   - o To monitor the vigilance cases against the officers of customs and central excise formations;
   - o To maintain proper surveillance on the officials of doubtful integrity; and,
   - o To maintain close liaison with the Central Bureau of Investigation, Directorate General of Revenue Intelligence and vigilance branches in the Commissionerates in order to ensure that the programmes on vigilance and anti-corruption are implemented in all Commissionerates of customs, central excise and narcotics formations.
7. Directorate of Systems
   - To look after all aspects of the implementation of customs, central excise and service tax computerization projects including acquisition of hardware, development and maintenance of software, training of personnel and monitoring of expenditure budget on computerization at the central and field levels.
8. Directorate of Data Management
   - To collect and consolidate data and statistics pertaining to realization of revenue from indirect taxes and advise the Ministry and the Board in forecasting budget estimates; and
   - To collect statistics for compilation of statistical bulletins and statistical yearbook in respect of revenue, arrears, seizures, court cases etc. pertaining to indirect taxes.
9. Directorate of Audit
   - To provide direction for evolution and improvement of audit techniques and procedures;
   - To ensure effective and efficient implementation of new audit system by periodic reviews;·
   - To coordinate with the external agencies as well as other formations within the Department;
   - To suggest measures to improve tax compliance;
   - To gauge the level of audit standards and assesses satisfaction;
   - To evolve the policy for development of a sound database as well as enhancing the skills of the auditors with a view to making the audit effective and meaningful;
   - To aid and advise the Board in policy formulation and to guide and prove functional directions in planning, coordination and supervision of audits at local levels;
   - To collate and disseminate the relevant information; and,
   - To implement EA-2000 audits and related projects like risk management, CAAP audits etc.
10. Directorate of Safeguards
    - To investigate the existence of serious injury or threat of serious injury to the domestic industry as a consequence of increased imports of an article into India;
    - To identify the articles liable for safeguard duty;

- To submit the findings, provisional or otherwise, to the Central Government regarding 'serious injury' or 'threat of serious injury' to the domestic industry consequent upon increased imports of an article from the specified country;
- To recommend the following;
  * The amount of duty which, if levied, would be adequate to remove the 'injury' or 'threat of injury' to the domestic industry;
  * The duration of levy of safeguard duty and where the period so recommended is more than a year, to recommend progressive liberalization adequate to facilitate positive adjustment; and,
  * To review the need for continuance of safeguard duty.

11. Directorate of Export Promotion

- To interact with the Export Promotion Councils for various categories of export to sort out the difficulties being faced by the genuine exporters;
- To function in close liaison with allied agencies concerned with the exports to ensure that genuine exporters get the full advantage of the export schemes without any difficulties;
- To monitor the performance of the field formations through monthly and quarterly returns, like duty foregone statements, drawback payment statements and quarterly drawback payment statements and to compare and compile the same to enable the Ministry to review the policy;
- To carry out the appraisal studies to examine the efficacy of the existing legal provisions/ rules and procedures and suggest to the Ministry about the changes to be made, if any;
- To conduct post-audit of the Brand Rate fixed by the concerned commissioners and carry out physical verification of selected cases independently or with the help of the Central Excise formations;
- To conduct post audit of the select cases of duty free imports allowed under various Export Promotion Schemes in the Customs and Central Excise formations; and,
- To work in close coordination with the Board's Customs-IV Section and FTT Section of the Board's office that deals with 100% EOUs/ EPZ Units/SEZ Units and various Technology parks and the schemes relating to the export of gems and jewellery.

12. Directorate of Service Tax

- To monitor the collections and assessments of service tax;
- To study the administration of service tax in the field and to suggest measures to increase revenue collections;To undertake study of law and procedures
- To form a database and,
- To inspect the Service Tax Cells in the Commissionerates.

13. Directorate of Valuation

- To assist and advise the Board in the implementation and monitoring of the working of the WTO Agreement on Customs Valuation;
- To build a comprehensive valuation database for internationally traded goods using past precedents, published price information or prices obtained from other authentic sources;
- To disseminate the price information on a continuing basis to all customs formations for online viewing as a means of assistance for day to day assessments with a view to detecting and preventing under valuation as also for enabling assessments to be finalized speedily;
- To monitor valuation practices at various customs formations and bring to the notice of the Board the significant and emerging pricing patterns and to suggest corrective policy or other measures, where needed;
- To maintain liaison with the Valuation Directorates of other customs administrations and customs officers posted abroad;
- To study international price trends of sensitive commodities and pricing patterns of transnational corporations (e.g. transfer pricing) and Indian ventures with foreign collaborations and help evolve a system to combat planned under valuation as well as valuation frauds; and,
- To carry out inspection of the field formations to determine whether the valuation norms as evolved by the Directorate of Valuation are uniformly applied across the country.

14. Directorate of Publicity and Public Relations
    - To prepare, revise and publish the statutory and departmental manuals;
    - To consolidate the instructions issued by the Board in technical and administrative matters of customs and central excise;
    - To compile the important judgments delivered by High Courts and the Supreme Court on matters relating to indirect taxes;
    - To update all departmental manuals through correction lists etc;
    - To undertake publicity with a view to educating the public about indirect taxes through brochures, posters, hoardings, radio, TV and press media.
15. Directorate of Organization and Personnel Management
    - To look after the functions relating to method studies, work measurement and staffing, besides management services including manpower planning for the customs, central excise, service tax and narcotics formations.
16. Directorate of Logistics
    - To inspect, assess and evaluate the effectiveness of the staff deployed on anti-smuggling duties in the Commissionerates and in vulnerable areas;
    - To monitor, coordinate and evaluate the progress in cases of adjudications, prosecutions and rewards to informers and officers in various Commissionerates and to monitor the progress in disposal of confiscated goods involved in prosecution cases;
    - To plan and assess the need for staff training, equipments, vehicles,vessels,communications or other resources required for anti smuggling work in various
17. Directorate of Legal Affairs
    - o To function as the nodal agency to monitor the legal and judicial work of the Board;
    - o To create a data bank of all the cases decided by the various benches of the Tribunal and monitor cases effectively in order to ensure that the field formations recommend filing of appeals only in deserving cases and not on the issues already decided by the Supreme Court or High Courts and accepted by the department;
    - o To ensure that all orders of the Tribunal are examined by the field formations and timely proposal for filing appeal are sent to the Board wherever necessary and the report about acceptance of an order is sent to the Chief Commissioner.To intimate the field formations about important decisions of the various High Courts, which are finally accepted by the Department, and about the important decisions of the Supreme Court so that unnecessary litigation work on the issues already settled is not created by the field formations;
    - o To create a database pertaining to the cases pending in various High Courts. The appellant/respondent Commissioners will assist the Directorate in creating and updating the database pertaining to the High Court cases;
    - o To prepare panels of standing counsels/ panel counsels for various High Courts on the basis of feedback received from the field formations. However, the role of the Directorate is restricted to making recommendations only and the final decision regarding approval of the panel / appointment of the Standing Counsels rests with the Ministry; and
    - o To keep an approved panel of eminent lawyers well versed with customs and central excise laws as well as administration, who may not be on the regular panel of the government but may be engaged by the department for handling important cases.
18. Chief Departmental Representative
    - o To receive the cause list of cases from the Tribunal registry and distribute case files among Departmental Representatives (DRs);
    - o To monitor the effective representation by DRs in all listed cases before the benches of the CESTAT;
    - o To coordinate and call for cross objections, clarifications and confirmations from the Commissionerates concerned;
    - o To maintain coordination with the President, CESTAT, and
    - o To exercise administrative control over DRs and attend to the administrative matters pertaining to the CDR office including its regional offices at Mumbai, Kolkata, Chennai and Bangalore.
19. Central Revenues Control Laboratory
    - o To analyze samples of goods, and to render technical advice to the Board and its field formations, in regard to the nature, characteristics and composition for various goods.

4. CENTRAL BOARD OF DIRECT TAXES

4.1 Organisation and functions

The Central Board of Direct Taxes is the apex body in the Direct Taxes set up. It employs a workforce of 59,729 officers and staff, of which approximately 16.89% are Gazetted officers in Groups 'A' and 'B' categories and the remaining are non-Gazetted employees in Groups 'C' and 'D' categories

The Board has the following attached Officers in Delhi:

1. Directorate of Income Tax (RSP&PR)
2. Directorate of Income Tax (Recovery)
3. Directorate of Income Tax (Audit)
4. Directorate of Income Tax (Income Tax)
5. Directorate of Income Tax (O&MS)
6. Directorate of Income Tax (Systems)
7. Directorate of Income Tax (Investigation)
8. Directorate of Income Tax (Vigilance)
9. Directorate of Income Tax (Exemption)
10. Directorate of Income Tax (Legal & Research)
11. Directorates of Income Tax (International Taxation)
12. Directorate of Income Tax (Infrastructure)

Various Chief Commissioners of Income Tax, stationed all over the country, are in-charge of assessment and collection of direct taxes at regional levels. Directors General of Income Tax (Investigation) are overall in-charge of the investigation machinery at regional level, with the aim to curb tax evasion and unearthing of unaccounted money. Chief Commissioners of Income Tax / Directors General of Income Tax are assisted by Commissioners of Income Tax / Directors of Income Tax within their jurisdictions. There is also first appellate machinery comprising Commissioners of Income Tax (Appeals), who perform the task of disposal of appeals against the orders of assessing officers.

A comprehensive computerization programme of the Income Tax Department for induction of information technology is being carried out in a big way. Expected benefits from this exercise are a taxpayers friendly regime, much wider tax-base, better supervision and, above all, garnering more revenue for the Government.

4.2 Conference

The 21st Conference of Chief Commissioners and Directors General of Income Tax was held at New Delhi on 6th & 7th July, 2005. The Union Finance Minister, in his address, emphasized upon the officers that they should keep in mind the long-time vision of the Income Tax Department. He further emphasized that like any other developed country, direct taxes are going to play an increasingly important role, and would be the leading contributor to the exchequer of Government of India. Therefore, the Income Tax Department should gear itself up to take on this challenge and responsibility.

4.3 Direct Taxes Advisory Committees

With a view to encouraging mutual understanding between taxpayers and Income Tax Officers and to advise the Government on measures for removing difficulties of general nature pertaining to Direct Taxes, there is a Central Direct Taxes Advisory Committee (CDTAC) at Delhi and 61 Regional Direct Taxes Advisory Committees (RDTACs) at important stations. Representatives of trade and professional associations are also nominated to these committees. The term of these committees is two years from the date of their constitution.

The Union Finance Minister is the Chairman of the Central Direct Taxes Advisory Committee. The official Members are Secretary (Revenue), Chairman, CBDT and Member (Revenue and Widening of Tax Base), CBDT. The non-official Members include four Members of Parliament: two from each House and representatives of Commerce and Industry like, FICCI, ASSOCHAM etc., lawyers and other professionals.

4.4 Revenue Collection

1. Statement Showing the Budget Estimate and Actual collection of Direct Taxes During the Financial Years 2003-04, 2004-05 & 2005-06.

	2003-2004		2004-2005			2005-2006	
Taxes	Budget Estimates	Collection 2003-04	Budget Estimates	Collection 2004-05	Collections up to Nov. 2004	Budget Estimates (Provisional)	Collection up to Nov. 2005
Corporation tax	51499	63562	88,436	83,581	31,741	1,10573	39,437
Income tax	44070	41386	50,929	47,514	25,057	66,239	31,798
Other	145	140	145	823	197	265	228
Total	**95714**	**105088**	**1,39,510**	**1,31,918**	**56,994**	**1,77,077**	**71,464**

Note: Personal Income Tax collections of 2005-06 include collections of Fringe Benefit Tax, Securities Transaction Tax and Banking Cash Transactions Tax.

The total collection of Corporate Income Tax and Personal Income Tax up to Nov.2005 is Rs. 71464 crore as compared to the collection of Rs. 56,994 crore in the corresponding period of last year. The collection of Corporate Income Tax up to Nov. 2005 has registered a growth of 24.25% and the collection of Personal Income Tax up to November 2005 has registered a growth of 26.9% over the collections for the corresponding period of last year. The overall growth of direct tax collections) is 25.39%.

4.5 Measures to Combat Tax Evasion

The Government is continuously striving to check tax evasion and accumulation of unaccounted wealth. In pursuance of these objective, systematic survey operations, search and seizure operations in appropriate cases, verification of information by Central Information Branches in a planned manner and scrutiny of selected number of cases continue to be undertaken.

For carrying out of aforesaid work, the field units of the Investigation Wing are headed by 14 Directors General of Income Tax, stationed at Delhi, Kolkata, Chennai, Mumbai, Ahmedabad, Lucknow, Bangalore, Hyderabad, Cochin, Pune, Jaipur, Patna, Chandigarh and Bhopal. Their functions include investigating cases and verification of information pertaining to financial transactions. They are assisted by Directors of Income Tax (Inv.) and their subordinate officers stationed at different parts of the country. There are three Chief Commissoners of Income tax (Central), two stationed at Mumbai and one at Delhi. Their functions include supervision of finalisation of search assessments within stipulated time limit.

The results achieved in the searches conducted over the last three Financial Years are shown in the table below:

Result of Searches

(Rs. in crores)

F.Y.	Number of warrants	Value of Assets Seized
2002-2003	4902	515.87
2003-2004	2492	231.37
2004-2005	2377	202.28
2005-2006*(upt to 30.11.2005)	1559*	195.49*

Prosecution for tax related offences is provided under the Direct Tax Laws. There are also provisions for compounding of offences for which prosecution has been launched/likely to be launched.

Statistics relating to prosecution work during the last three Financial Years are as below:

Statistics relating to Prosecutions

Financial Year	No. of Prosecutions proceedings	No. of Prosecutions Decided	No.of perceedings where Conviction Obtained	No. of Prosecutions Compounded	No.of Persons Acquitted
2002-2003	102	433	18	11	404
2003-2004	37	115	12	55	48
2004- 2005	103	350	1	262	87
2005-2006* (up to 31.11.2005)	255	34	1	4	29

(Figures are provisional)*

4.6 Widening of Tax Base

Number of Assessees over the last Seven years

S.No.	Financial Year	Total Number of assessees as on 31st March of FY *(in lakhs)*
(1)	(2)	(3)
1.	1998-1999	186.11
2.	1999-2000	214.29
3.	2000-2001	247.37
4.	2001-2002	283.75
5.	2002-2003	300.19
6.	2003-2004	301.78
7.	2004-2005	308.08

With a view to widen the tax base, the following measures have been taken in the Finance Act 2005:

(a) Section 139 has been amended so as to provide for Compulsory filing of returns by firms, whether they have income or loss.

(b) Compulsory filing of returns has also been provided for in cases where the gross total income before allowing deductions under Chapter VI-A and exemption under sections 10A, 10B, or 10BA exceeds the maximum amount not chargeable to tax.

(c) Expenditure exceeding Rs. 50,000/- on electricity consumption in any previous year has been included as a criterian for filing return under the one by six' Scheme. Subscribing to a Cellular phone has been excluded from the criteria for filing return under the one by six' scheme.

Valuation Cell

Valuation Cell: Valuation Cells have statutory powers in respect of the following:-

(i) Determination of the cost of construction for assessment purposes under the Income Tax Act.

(ii) Determining the fair market value of attached properties which are auctioned for recovery of tax arrears.

As in 1st April 2005, the Valuation Cell had a pendency of 746 cases. During the current financial year, 864 cases were received and 804 cases were disposed off upto 31st October 2005.

Statement showing Collection of Other Taxes

(Figures in crores of rupees)

Nature of Tax	2003-04 Collection	2004-05 Collection	2005-06 Collection upto Nov., 2005
Wealth Tax	136.61	143.88	195.88
Gift Tax	0.85	1.98	2.79
Expenditure Tax	49.51	37.00	11.21
Security Transaction Tax		589.60	1520.23

4.7 Disposal of Assessments and Claims of Refunds

The work-load and disposal of assessments during the last few years is as follows:-

Assessment Year	Assessments for Disposal (in lakhs)	Disposal (in lakhs)
1998-1999	184.30	85.54
1999-2000	274.02	143.60
2000-2001	314.06	188.59
2001-2002	367.26	201.27
2002-2003	380.16	348.25
2003-2004	273.67	215.78
2004-2005	267.37	207.04

The claims of refunds are being disposed of expeditiously. The figures of last few years will testify this:-

Financial Year	Number of claims	Disposal
1998-1999	204318	107600
1999-2000	470013	315583
2000-2001	433409	300397
2001-2002	492468	175883
2002-2003	735155	515427
2003-2004	446990	323375
2004-2005	404477	303747

The details of refunds arising out of appellate and revisionary orders in the last few years are as follows:-

Year	No. of cases of Appellate/ Revision orders	Disposal
1998-1999	43852	40072
1999-2000	46082	42120
2000-2001	43668	40412
2001-2002	30744	26712
2002-2003	68501	43520
2003-2004	49085	46386
2004-2005	52705	48043

The Board has continued its efforts for early completion of assessments and for prompt disposal of refund claims and has been consistently impressing upon the Chief Commissioners of Income tax/Commissioners of Income tax, the need for taking effective steps for elimination of delays in these matters. The Board has further directed that all refunds should be dispatched by Registered Post acknowledgement due within 15 days of determination, irrespective of the value of such refunds.

4.8 Condonation of Delay in Filing Refund Claims

Refund claims are required to be filed within one year from the end of the assessment year to which the claim pertains. The Board has been given power under section 119(2)(b) of the Income tax Act to condone the delay if it considers desirable or expedient to do so for avoiding genuine hardship in any case. The number of applications received and disposed of by the Central Board of Direct Taxes during the last few years are given as under:-

year	Number of Claims	Disposal
1998-1999	106	87
1999-2000	517	290
2000-2001	389	256
2001-2002	363	59
2002-2003	404	195
2003-2004	139	440
2004-2005	164	33
2005-2006 (upto December, 2005)*	63	08

4.9 Administration and Interpretation of Specified Section of Income Tax Act,1961

ITA-I Section in Central Board of Direct Taxes is entrusted with the administration and interpretation of specified sections of the Income-tax Act, 1961. Prominent ones are those pertaining to definitions, exemptions u/s 10 of the IT Act, 1961, assessment of incomes from salaries, house property and deductions under Chapter VIA, rebates and relief. It is also entrusted with the responsibility of assigning jurisdiction to various Income-tax authorities, opening of new Income-tax offices, transfer of cases. Besides, it looks after the ever-increasing demand for expanding the presence of the IT Department in the country and also attends to the effective achievement of socio-economic objectives of the country through the application of various provisions of Income-tax Act, 1961.

1. Notification of Charitable and other Institutions/ Funds/Organisations

The CBDT notifies various charitable, religious, educational and medical institutions under section 10(23C) to encourage social welfare and philanthropic activities carried out by various institutions. During the period from 1/1/05 to 31/12/05, a total number of 62 notifications/orders u/s 10(23C)(iv)/(v)/(vi)/(via) of the IT Act, 1961 were issued**.**

2. Promotion of Sports

During the period from 1/1/05 to 31/12/05, a total number of three notifications u/s 10(23) of the IT Act, 1961 were issued

3. Promotion of Civil Aviation Sector

In order to give a boost to the civil aviation sector, CBDT accords exemption in respect of any payment made for acquiring an aircraft on lease from a foreign government or a foreign enterprise, subject to restrictions, as per sec. 10(15A) of the IT Act, 1961. During the period from 1/1/05 to 31/12/05, a total number of 81 approvals were given for aircraft on lease.

4. Encouragement to Individual Achievements

Section 10(17A) of the IT Act, 1961 provides exemption in respect of any payment made, whether in cash or kind, in the form of an award provided the said award has been instituted in the public interest and has been approved by the Central Government. The total awards granted approval during the period from 1/1/05 to 31/12/05 were five in number.

5. Deduction of interest on Government securities/ dividends

Section 80L of the IT Act, 1961 deals with deductions in respect of interest on certain securities, dividends. Section 80IA of the IT Act, 1961 deals with deductions in respect of profits and gains from industrial undertaking etc. Section 10(15)(iv)(h) and 10(15)(vii) deals with exemptions on interest on certain securities (tax free). Under these Sections, a total number of 18 notifications were issued.

6. Opening of new Income Tax Offices

During the period from 1/1/05 to 31/12/05, the proposal relating to opening of new Income Tax Offices have been finalized and necessary administrative approvals have been issued in two cases.

7. Notification of Jurisdiction of CCsIT/CsIT u/s 120(1)/ (2) of the IT Act, 1961

The Income Tax Department has been restructured in 2001, to meet the challenges of the post liberalization era. Granting jurisdiction being the work area of ITA-I Section, orders were issued notifying the jurisdiction of officers at various level, viz., Chief Commissioners/Directors General/Commissioners and Directors of Income-tax. 13 notifications were issued during the period from 1/1/05 to 31/12/05.

8. Orders u/s 10(23G) (Alphabet R-Z) since September, 2005

Section 10(23G) of the IT Act, 1961 deals with deductions in respect of dividends, interest or long term capital gains from investments in any enterprises/undertaking engaged in the business of infrastructure development. Fourl orders werevissued during the period from 1/1/05 to 31/12/05.

9. Notification u/s 80G(2)(b) of the IT Act, 1961

Deduction u/s 80G (2) (b) of the IT Act, 1961 is available to the donors towards donations made to the renowned temples throughout India. One notification has been issued under this section.

4.10 Appeals

Higher monetary limit has been fixed for filing appeals as aresult of which the number of appeals filed by the Department during FY 2003-04 and FY 2004-05 were reduced substantially as indicated below.

	During FY 2004-05	During FY2003-04
ITAT	29582	33440
HC	5998	4320
SC	237	392

4.11 Legislation

Finance Act, 2005

➢ To significantly lower the tax burden on the income-tax payers, the basic exemption limit has been increased to Rs. 1 lakh, for women to Rs. 1.35 lakh and for senior citizens to Rs. 1.85 lakhs. Further, the income slabs for taxation have been widened as follows:

Rs 1 lakh to Rs 1.50 lakhs	-10%;
Rs 1.50 lakhs to Rs. 2.50 lakhs	-20%;
more Rs..50 lakhs	-30%.

Surcharge @ 10% shall be charged in the cases of individuals, Hindu Undivided Families, Association of Persons and Body of Individuals on incomes exceeding Rs 10 lakhs.

Keeping in view the higher exemption limits and wider tax slabs, the standard deduction against salary income has been withdrawn.

➢ The corporate tax rate (for domestic companies) has been reduced from 35%to 30% so as to reduce ex-ante cost of capital and provide larger internal accruals for modernisation and expansion. Further, the tax rate for firms has been reduced from 35% to 30%. Surcharge at the rate of 10% has been levied on domestic companies and firms.

➢ To provide homogenous treatment to the taxation of financial savings, following measures have been taken:

- All existing rebates under Section 88, 88B and 88C have been withdrawn.
- It has been provided that investment in financial instruments hitherto eligible for rebate under section 88 shall now be eligible for deduction from income under new Section 80C with an overall cap of Rs 1 lakh. Further, sectoral caps on house loan repayment, tuition fees, contribution to provident fund payment etc., have been removed.

➢ Deduction provided in respect of interest on certain securities etc. under section 80L has been withdrawn.

➢ Fringe Benefit Tax has been introduced to tax the privileges, facilities or amenities provided or deemed to have been privided by the employer to the employees. The fringe benefit tax shall be levied at the rate of 30% on the value of such fringe benefits, and shall be paid by the employer.

➢ To widen the tax base following measures have been taken:

(a) Section 139 has been amended so as to provide for Compulsory filing of returns by firms, whether they have income or loss.

(b) Compulsory filing of returns has also been provided for in cases where the gross total income before allowing deductions under Chapter VI-A and exemption under sections 10A, 10B, or 10BA exceeds the maximum amount not chargeable to tax.

(c) Expenditure exceeding Rs. 50,000/- on electricity consumption in any previous year has been included as a criterian for filing return under the one by six' Scheme. Subscribership to a Cellular phone has been excluded from the criteria for filing return under the one by six' scheme.

➢ To encourage the pursuit of higher studies, it has been provided under section 80E that the entire amount of interest on loan taken for higher studies shall be allowed as a deduction for eight years.

➢ To promote industrial development in the State of Jammu & Kashmir, the time limit for setting up of industry in J&K for the purposes of claiming deduction under Section 80-IB(4) has been extended to 31.03.2007.

➢ The following rationalization and simplification measures have been taken:

(a) It has been provided that credit for MAT paid under section 115JB shall be provided against the tax liability that arises in subsequent years.

(b) Sub clause (ii) of clause (4) of section 10 has been amended so as to provide that the interest on a Non-Resident (External) Account shall continue to be exempt.

(c) Sub clause (iv) of clause (15) of section 10 has been amended so as to provide that the interest on foreign currency deposit shall continue to be exempt from tax.

(d) Revival of exemption on lease rentals paid while acquiring an aircraft or an aircraft engine for the lease agreements entered into before 1-4-2006.

(e) Section 115A has been amended so as to provide that income earned by way of royalty and fees for technical services in case of a non-resident in respect of agreement made on or after 1.6.2005 shall be charged to tax @ 10%.

(f) Section 80-IA has been amended so as to provide that authorities constituted under the Central or State Act and operating, developing and maintaining an infrastructure facility shall be eligible for 100% deduction of profits for a period of 10 years under the said section.

(g) The rates of depreciation have been rationalised keeping in view the reduced tax rates, low inflation in the price of capital goods, enhanced internal accruals etc. Among other things the rate of depreciation on Plant & Machinery has been reduced to 15%.

(h) Additional depreciation on new Plant & Machinery acquired after 1-4-2005 has been increased to 20%

(i) Section 35DDA has been amended so as to provide that the entire expenditure incurred for making payments by an employer on implementing a VRS scheme is allowed as deduction even if such expenditure is incurred over a period of time

(j) Dredgers to come under the definition of qualifying ship for Tonnage Tax Scheme

(k) Clause (5) of section 43 has been amended so as to provide trading in derivatives on a recognised stock exchange shall not be treated as a speculative transaction

(l) TDS/TCS Demat provisions have been deferred by one year and now shall be applicable for taxes deducted/ collected on or after 1-4-2006

(m) In order to mitigate the difficulties of small truck operators, sub-section (3) of section 194C has been amended exempting truck operators owning upto two trucks from TDS.

➢ A new section 72AA has been inserted so as to provide that where a banking company has amalgamated with a banking institution in accordance with a scheme sanctioned by the Central Government, carry forward of the accumulated loss and unabsorbed depreciation of the amalgamating banking company shall be allowed to the amalgamated banking institution

➢ It has been provided that the income from transfer of a Zero coupon bond, not being stock–in-trade,shall be treated as capital gains.

➢ Section 153B has been amended so as to rationalise the time limit for search assessment in case of other person. It has been provided that in case of the other person the time limit for making assessment in respect of the six years preceding the assessment year relevant to the previous year in which search u/s 132 is conducted or requisition u/s 132A is made, and in respect of previous year in which search is conducted or requisition u/s 132A is made, shall be two years from the end of the financial year in which the last of the authorizations for search u/s 132 or for requisition u/s 132A was executed or one year from the end of the financial year in which books of account , documents or assets seized or requisitioned are handed over to the Assessing Officer having jurisdiction over such other person. Further, a new proviso to sub-section (1) of section 153C has been inserted providing that in the case of such other person, the reference to date on initiation of search u/s 132 or making of requisition u/s 132A, in the second proviso to section 153A shall be construed as a reference to the date of receiving the books of account or documents or assets seized or requisitioned by the Assessing officer having jurisdiction over such other person.

➢ To promote scientific research and development the following measures have been taken up:

(a) Sec 35(2AB) has been amended thereby extending the time limit for allowing deduction of 150% of expenditure on in-house research by companies engaged in business of drugs, biotechnology, telecommunication equipment, computers, pharmaceuticals etc. upto 31.3.2007.

(b) Sub-section (8A) of section 80-IB has been amended so as to provide that 100% deduction shall be allowed to a company carrying on scientific research and development where such company is approved by the prescribed authority before 1.4.2007.

➢ Two new measures have been taken with a view to check tax-evasion:

(a) a new levy namely Banking Cash Transaction Tax has been levied@ 0.1% on the value of the following taxable banking transactions:

(i) withdrawal of cash from an account (other than savings account) with a scheduled bank on any single day exceeding Rs.25,000 by an individual or HUF and Rs.1,00,000 by other persons;

(ii) receipt of cash on encashment of term deposits with a scheduled bank on any single day exceeding Rs.25,000 by an individual or HUF and Rs.1,00,000 by other persons.

(b) a new section 206A has been inserted so as to provide for furnishing of quarterly returns by banks, co-operative societies and public companies (engaged primarily in the business of providing long term finance for construction or purchase of houses in India), in respect of deposits where the interest paid is less than Rs. 5,000/-.

➢ As a measure to mobilize additional resources, the rates for Securities Transaction Tax increased by 33.33% as follows:-

1) @ 0.1% on the value of transactions of delivery-based purchase of an equity share in a company or a unit of an equity oriented fund, entered in a recognised stock exchange, to be paid by the buyer,

2) @ 0.1% on the value of transactions of delivery-based sale of an equity share in a company or a unit of an equity oriented fund, entered in a recognised stock exchange, to be paid by the seller,

3) @ 0.02% on the value of transactions of non-delivery based sale of an equity share in a company or a unit of an equity oriented fund, entered in a recognised stock exchange to be paid by the seller,

4) @ 0.0133%, on the value of transactions of derivatives being option or future, entered in a recognised stock exchange,

5) @ 0.2% on the value of transactions of sale of units of an equity-oriented fund to the mutual fund.

Actions Taken on the Budget 2005-06 Announcements

(I) To switch over to the EET system of taxation, the F.M. had announced that a Committee would be set up to work out the roadmap for the same. Pursuant to this, an EET Committee was constituted vide order dated 5.8.2005. The committee has submitted its report on 28.11.2005, which is under consideration of the Government.

(II) In Para 177 of the Budget Speech, the F.M. had announced that the National Common Minimum Program (NCMP) requires the Government to introduce special schemes to unearth black money and assets. In line of the same, the following two new anti tax-evasion measures have been taken with a view to unearth black money:

(a) a new levy namely Banking Cash Transaction Tax has been levied@ 0.1% on the value of the following taxable banking transactions:

(i) withdrawal of cash from an account (other than savings account) with a scheduled bank on any single day exceeding Rs.25,000 by an individual or HUF and Rs.1,00,000 by other persons;

(ii) receipt of cash on encashment of term deposits with a scheduled bank on any single day exceeding Rs.25,000 by an individual or HUF and Rs.1,00,000 by other persons.

The BCTT Rules, 2005 have been notified vide notification S.O.No. 77(E) dated 30.5.2005.

(b) a new section 206A has been inserted so as to provide for furnishing of quarterly returns by banks, co-operative societies and public companies (engaged primarily in the business of providing long term finance for construction or purchase of houses in India), in respect of deposits where the interest paid is less than Rs. 5,000/-.

The government has issued notification S.O.No. 896(E) dated 28.6.2005 for the purpose of filing quarterly return of non-deduction of tax at source u/s 206A of the I.T. Act, 1961.

In consonance with the announcement made by the Hon'ble F.M. an Expert Group has been constituted to prepare the draft for a revised and simplified Income-tax Bill.

4.12 Foreign Tax Division

Double Taxation Avoidance Agreements (DTAAs)

A. Objectives in General:

(a) Double taxation occurs as a result of imposition of comparable taxes in two or more States on the same tax payer in respect of the same subject matter and for identical periods. This double taxation is sought to be avoided through the instrument of a bilateral tax treaty between two States. The Double Taxation Avoidance Agreements (DTAA) contain a set of distributive rules for the division of tax revenue between two States from different streams of income including business income, interest, dividends, fees for technical services, capital gains, pensions. These DTAAs, also referred to as Double Taxation Avoidance Convention (DTACs), serve as a symbol of good commercial relations between two countries and help in attracting foreign investments and to avoid distortion in trade and investment world wide.

(i) A DTAA is a bilateral agreement between two Contracting States and indicates the mutual agreement with regard to avoidance of double taxation, relief from taxation, exchange of information and assistance in collection of taxes. They are based on the principle of reciprocity. DTAAs provide for alternate dispute redressal mechanism through the Mutual Agreement Procedure(MAP).

B. Performance / Achievements During The Period From January, 2005 to Dec. 2005

From June, 2003 onwards, FT & TR Division have been bifurcated into two divisions viz., FT & TR-I Division and FT-TR-II Division. The performance / achievements of these divisions during the period are as under:-

1. FT & TR-I Division

(i) Negotiations for finalisation of comprehensive DTAAs/ DTACs were held with the delegations from Iceland, Luxemburg and Lithuania.

(ii) Negotiations for revision of certain articles of existing DTAAs/DTACs were held with Romania, Greece and Japan. An Amending protocol with Japan has been finalized and initialed at the official level. This Protocol is expected to boost the bilateral trade and investment between the two countries especially in the field of Software services.

(iii) The re-negotiated treaty with Hungary was notified on 31.3.2005.

(iv) Meetings under Mutual Agreement Procedure (MAP) were held with Japan and USA. MAP is a time consuming process since officials of two governments are involved and it is a matter of interpretation of taxation rights of two sovereign countries and the settlement has to be mutually acceptable.

(v) In 106 cases requests have been made to various foreign tax authorities under Exchange of Information. The information received has been utilized during the course of assessment and investigation by the field authorities. In some cases taxes have been collected in India and remitted to the foreign tax authorities towards tax arrears of taxpayers in those countries.

2. FT & TR-II Division

(i) The SAARC Limited Multilateral Agreement on Avoidance of Double Taxation and Mutual Administrative Assistance in tax matters was signed during the 13th SAARC Summit held in Daka on 12-13th November, 2005. This Limited Multilateral Agreement is the first of its kind entered into by India as all other DTAAs/DTACs entered into by India are bilateral in nature. This Limited Multilateral Agreement is expected to be a milestone in promoting mutual administrative assistance and cooperation in tax matters amongst SAARC Member States.

(ii) A Protocol to amend the existing DTAA between India and Singapore was signed on 29th June, 2005 as a part of Comprehensive Economic Cooperation Agreement (CECA) between India and Singapore.

(ii) Negotiations for review of the existing DTAA between India and Sri Lanka were held as a part of the Comprehensive Economic Partnership Agreement between India and Sri Lanka.

(iii) Negotiations for entering into comprehensive DTAAs/ DTACs were held with the delegations of Botswana, Chile, Iran, Kuwait, Saudi Arabia, Senegal, Uruguay and Venezuela. Negotiations with Kuwait have been finalised and agreement has been initialed at the official level. Negotiations for revision of the existing DTAAs/DTACs with South Korea, Tanzania and Zambia were also held during the period.

C. Status of India's Notified DTAA's/DTAC's:

As on date, India has notified comprehensive DTAAs/DTACs, covering all sources of income with 69 countries. Similarly, India has limited air and shipping agreements with 10 countries.

4.13 Audit & Public Accounts Committee

The Draft Paragraphs (DP's) and System Appraisals proposed for inclusion in the C&AG Report are examined in the A&PAC Division. In respect of the same, the comments of the Ministry (compiled in consultation with the comments of the field authorities) are furnished to the C&AG. This Division also furnishes information to the Public Accounts Committee (PAC) by replying to the Advance Questionnaire and the Questions arising after the oral evidence taken by the Committee.

During the year 2005 (From 1st January 2005 to 31st December 2005), the office of the C&AG has called for the comments of the Ministry on 675 DP's proposed for inclusion in the Audit Report for the year 2004-05. Replies of 65 DP's have already been furnished during this year. C&AG Report No. 12 and 13 of 2005 (Year ending March, 2004) were presented before the parliament on 16.5.2005. 885 DP's were included in the C&AG's Report for the year 2003-2004 (No. 12 of 2005). Action Taken Notes (ATNs) on these Paras are being sent to C&AG in consultation with DIT (Audit).

Audit Report Year -wise disposal of ATNs/DPs during 1st January to 31st December 2005 is as under:-

Audit Report Year	No. of DP's Replied	No. of ATNs/Revise ATNs sent to C&AG	No. of ATNs sent to Monitoring Cell after receiving C&AG's Vetting of Comments
1997-1998	Nil	Nil	1
1998-1999	4	Nil	12
1999-2000	3	17	29
2000-2001	27	19	56
2001-2002	54	51	55
2002-2003	91	319	599
2003-2004	612	106	Nil
2004-2005	65	Nil	Nil
Total	**856**	**512**	**752**

The Office of the C&AG has forwarded three draft system reviews for inclusion in C&AG's Report No. 7 of 2006 on the following subjects:

(a) Efficiency of Summary Assessment Scheme and process of selection of cases for scrutiny

(b) Effectiveness of search and seizure operations.

(c) Performance Audit of AST System of the Revenue – Department.

Preliminary replies of the above said draft system reviews have been furnished to the office of the C&AG. Two draft reviews have been circulated to concerned CCsIT/field formations for their comments.During the year, reply to the System Review on "Assessment of business of Civil Construction" included in C&AG's Report No.13 of 2004, was sent to C&AG.

The PAC took oral evidence of the Department on Paragraphs No. 3.17.1, 3.17.2, 3.17.3, 3.19 and 3.24.1 of Chapter 3 of C&AG's Report No. 13 of 2004 relating to *Assessment of private Schools, Colleges and Coaching Centres*" in January, 2005. 14th Report of the PAC (14th Lok Sabha) was presented to the Lok Sabha on 3rd August, 2005 on the subject. Recommendations of the PAC are being followed up.

The PAC took oral evidence of the Department once again in the month of July, 2005 on Chapter 1 of C&AG's Report No. 13 of 2005 relating to system appraisal on *Status of improvement of efficiency through the 'Restructuring' of the Income tax Department.* The same was rendered satisfactorily.

Further, 15th Report of the PAC (14th Lok Sabha) on Action Taken Note on the 55th Report of PAC (13th Lok Sabha) relating to "Refunds under the Income Tax Act, 1961", has been received from Lok Sabha Secretariat. Comments on the same have been called for.

The ATNs on the remaining two paras i.e. paras 2.3 & 6.3 of 53rd Report of PAC of 13th Lok Sabha in the case of M/s. PILCOM was also sent to Lok Sabha Secretariat.

During this year advance questionnaire was received from the Lok Sabha Secretariat on the Review on "Some aspects of Non-residents Taxation with reference to Double Taxation Avoidance Agreements". Reply to the advance questionnaire on the same was sent to Lok Sabha Secretariat. Besides, replies to two more Advance Questionnaires (received during the year 2004) on the following subject were also submitted to the Lok Sabha Secretariat:

(i) Operation of the Scheme of taxation of companies under special provision of I.T. Act (Section 115JA/JB).

(ii) Assessment of business of Civil Construction.

114th and 115th meetings of Specified Authority were held on 10.01.2005 and 18-10-2005 respectively in which 8 cases were discussed and out of these cases, 3 cases was recommended for approval, one rejected and 4 cases deferred.

Apart from this, a number of rejoinders have also been received from the office of the C&AG on the draft paras included in the various C&AG report. Many rejoinders were also replied to in this period.

4.14 Directorate of Income Tax (Income Tax)

The Directorate of Income-tax(Income-tax) is an attached office of the CBDT under the administrative control of the Department of Revenue, Ministry of Finance. It is headed by a Director of Income-tax who is an officer in the rank of Commissioner of Income-tax and comprises two wings, namely, Inspection Wing and Examination Wing.

Inspection Wing

In the present system of inspection, the ranges or its equivalent formations are the basic unit which are inspected by the Commissioners of Income-tax. Their counterparts in other formations, such as Directors of Income-tax(Inv.), Directors of Income-tax(Exmp.), etc. conduct the inspections of Range level formations. The inspection reports are reviewed by Chief Commissioners of Income-tax or the Directors General of Income-tax.

At present, two categories of inspections are conducted in a financial year, viz, Systems Inspection which includes inspection of records and the disposal of various contingent proceedings like rectification, disposal of demands, disposal of appeal effects, etc. and Inspection of Assessment Quality like assessment, recovery, investigation, representation of Department's case before ITAT, etc.

The inspection reports after having been reviewed by the CCIT/DGIT are forwarded to the Directorate of Income-tax(Income-tax) which monitors the progress of inspections, examines and reviews the inspection reports. It also prepares and publishes on behalf of the CBDT an 'Annual Review of Inspections'.

A comparative analysis of inspections done since 1999-2000 onwards till 31.12.2005 is as under:-

Financial Year	No. of reports received	No. of reports scrutinized
1999-2000	678	305
2000-2001	673	351
2001-2002	314	175
2002-2003	675	450
2003-2004	2800	387
2004-2005	3091	-
2005-06 (up to 14.12.2005)	1818	328

The new system of inspection has brought about a discernable improvement has also helped achieve a quantum increase in the number of inspections done by the field formations.

Examination Wing

Highlights of the performance and achievements during the year (2005-06) April, 2005 to upto December, 2005 in respect of Examination Wing are as under:

(i) A committee under the Chairmanship of Sri Abraham Pothen, CIT (TDS), Chennai was constituted in April 2005 to draw a detailed syllabus for Departmental Examinations Rules-2004 for (i) Ministerial Staff, (ii) Income Tax Inspectors and (iii) Income Tax Officers in the light of the recommendations contained a earlier report of the G.P. Prabhu Committee Report. The Pothen Committee submitted its report in May 2005. The same has been examined by the Directorate and with some modifications forwarded to the Board for its consideration.

(ii) Examinations for these cadres were not held during the year as the Examination Rules for the same are being formulated by CBDT.

(iii) Rules and Syllabus for ACIT (Prob)'s Departmental Examination of 58th and onwards batches were finalised during the year (2005-06).

(iv) Supplementary Departmental Examination of ACIT (Probs.) for 56th & 57th Batches was held in the month of July 2005 and result were declared in the month of August, 2005.

(v) The First Departmental Examination for ACIT (Probs.)-58th Batch was held in the month of August/September, 2005 and the result was declared in the month of November, 2005.

The main function of the Examination Wing is to conduct Departmental Examination for IRS (Probs.) and other gazetted and non-gazetted staff of Income Tax Department. Besides conducting examinations for various cadres of the Department and declaring their results, the examination wing also reviews and interprets the rules and syllabi of various examinations, implements the policy of the government regarding departmental examinations and also deals with the complaints, grievances and representations of the candidates who have appeared in various Departmental Examinations conducted by Directorate.

The Departmental Examination for the IRS (Probs.) and for members of the staff of the Income Tax Department are being conducted regularly by the Directorate. The Directorate can take the credit for holding the examination in a fair and impartial manner. The Directorate has also been constantly reviewing the examination rules and policy/syllabus taking into account the new development in field of Income Tax.

4.15 Directorate of Income-Tax (Audit)

I Internal Audit working

i) New System of Internal Chain Audit

In the new system of Internal Audit, the audit is being conducted on a "Chain Basis" as a continuous process. Officers of the rank of Addl./Joint Commissioners of Income-Tax(Range) and Assessing Officers perform twin functions of Auditors and also Auditees. During the year some modifications have been made to make the Chain Audit System more effective and quality oriented.

ii) Inspection of Audit Work by the Directorate: Meetings with CIT/Addl. CITs were conducted in the following CCIT Regions to discuss the performance of Audit: Mumbai, Lucknow, Ludhiana and Pune

iii) During the year (upto September, 2005), 453 cases of irregularities were detected by the Department with tax effect of Rs. 2950021(000)

A comparative statement on the performance for the period of April to September, 2005 with the performance during the two earlier financial years is given below:-

		2003-2004	2004-2005	2005-2006 (Upto Sept. 05)
1	Total No. of Internal Audit cases in which mistakes (Major) were detected	4009 (Arrear) 1142 (Current)	3869 (Arrear) 1479 (Current)	2916 (Arrear) 453 (Current)
2	Revenue effect of (1) above (in thousand)	17957780 (Arrear) 1411190 (Current)	6777065 (Arrear) 2633127 (Current)	4574275 (Arrear) 2950021 (Current)
3	No. of Internal Audit objections settled			
	(a) Major (Arrear+ Current)	1466	2432	548
	(b) Minor (Arrear + Current)	4910	6796	1713
4	Revenue effect of (3) above (in thousand)			
	(a) Major (Arrear + Current)	2756338	4851682	587860
	(b) Minor (Arrear + Current)	64149	67201	18935

II Processing of Work relating to Revenue Audit

i) **C&AG Report 2003-2004 :** 795 Draft Paras which were included in the Comptroller & Auditor General's Report for 2003-2004 were processed and analysed. Decision of CBDT in respect of audit objections were received in 542 cases, out of which the Board had accepted objections in 406 cases, and in 136 cases the objections were not accepted. Action Taken Notes are being sent to CBDT in these cases.

ii) **C&AG Report 2004-2005 :** 593 Draft Paras which were proposed to be included in the Comptroller & Auditor General's Report for 2004-2005, have been received, and these are under process at the Board level. As soon as the acceptance of the Draft Para or otherwise is intimated by the CBDT, the ATNs shall be finalized by this Directorate.

iii) **Review and Publications:** During 2005-2006, 15 Quarterly Reviews, for the Quarters ending, March, June and September, 2005 were prepared. Out of these 6 Reviews pertained to the Internal Audit Objections, 6 Reviews pertained to Receipt Audit Objections and remaining 3 Reviews pertained to auditable cases indicating their disposal as well as the position of settlement of Major and minor audit objections.

iv) **Statement XVI:** Statistical data for inclusion in the Report of C&AG for the year 2004-2005 (Statement XVI) was sent to the Board.

The Directorate is also assisting the Board and the Department of Revenue in preparation of replies to the Public Accounts Committee and in taking follow up action.

4.16 Directorate of Income Tax (Recovery)

(i) Directorate of Income-tax (Recovery) was created in 1978. Concerned at the mounting tax arrears, the Board decided to set up this Directorate to maintain quarterly dossiers in cases of arrear demand of Rs 1 Cr and above (Rs 1 lac and above in cases pertaining to film industry) and to monitor the progress of recovery in those cases.

(ii) The broad functions of the Directorate are as under:

- Collection of dossiers pertaining to cases involving tax arrears of Rs. 1 crore and above (Rs 1 lac and above in cases pertaining to film industry) from all CCsIT/DGsIT charges dealing with assessment work.
- Scrutiny of the dossiers, formulating comments and suggestions thereon and communicating the same to the field formations.
- Monitoring the progress of recovery in dossier cases.
- Preparation of Quarterly Report of Analysis of Dossiers of Rs. 25 Crore and above, for monitoring of high demand cases by the CBDT.
- Inspection of field offices for speeding up of collection/ reduction of tax arrears.
- Collection and compilation of statistical data, and furnishing material to the CBDT for making replies to various Parliament Questions on arrears of demand.
- Processing of write-off and scaling-down-of-arrear demand proposals received from CCIT charges.
- Processing of BIFR/AAIFR cases for granting of Department's consent for any tax reliefs or concessions to sick industrial companies under the SICA Act, 1985.

(iii) During 2004-05, a special drive was launched for the collection of arrear demand. The focus of the drive included faster resolution of disputed demands pending before the appellate authorities and the Settlement Commission. A Task Force to implement the special drive was set up in August, 2004. As a result of the special drive, the Department during 2004-05 achieved the **highest ever collection and reduction of arrears.** Arrear demand stands reduced by Rs 27169 Cr, which is 39 percent higher as compared to last year. Cash collection alone is 28% higher at Rs 7083 Cr and reduction by disposal of appeals is 43% higher at Rs 20086 Cr.

CASH COLLECTION & REDUCTION OF ARREARS (Rs in crores)

Financial Year	Cash Collection	Reduction by Disposal of Appeals etc	Total
2003-04	5540	14014	19554
2004-05	7083	20086	27169
% age Increase over FY 2003-04	27.85%	43.33%	38.94%

(iv) Special drive for the collection of arrears has been continued in the current financial year. The position of demand in arrears as on 31st May 2005 was as follows:

Summary of Demand in Arrears as on 31st May 2005

A	Demand in Arrears As On 1st April 2005	99320
B	Reduction Upto 31st May 2005	816
C	Collection Upto 31st May 2005	854
D	Balance Demand in Arrears As On 31st May 2005	97650
E	Demand which has Nil or Low Potential for Recovery	
	Notified Persons, Scam Cases	28356
	No Assets, Pending Write Off etc.	18974
	BIFR Companies and Companies in Liquidation	7814
	Protective Demand, and Demand Raised to Keep Contested Issues Alive	8281
	Total	**63425**
F	Demand which is presently incollectible but shall be monitored, such as Demands Covered By Stay, Installments, Pending Stay Applications, Cases Before ITSC etc.	18412
G	Collectible Demand which includes Rs 13,645 crores out of Demand Raised During 2004-05	15813

4.17 Directorate of Income-Tax (RSP&PR)

The Directorate of Income-tax (Research, Statistics, Publication and Public Relations) is responsible for the Publicity and Public Relations, Printing and Publications, Compilation of Statistics and Implementation of Official Language Policy in the Income-Tax Department all over India.

Some items of the important work done by this Directorate during the period 1.4.2005 to 15-12-2005 are detailed below:

Public Relations

- Publicity through Print and Electronic Media was carried out for the various provisions of the Income-Tax Act, such as Tax Deduction at Source (TDS), Due date of filing of Income-tax Returns. There were three major campaigns during this period. The first one was on Help Centres, the second one was focusing on stop-filers and non-filers in the month of October and third campaign is on Advance Tax Payment for 15th December installment. These ad campaigns were highly effective and appreciated.
- The Administrative Hand Book 2006 is under compilation and is going for printing.
- The Directorate updated and revised Booklets of Taxpayers' Information Series for Sale and distribution to the public and the field offices of the Income-Tax Department all over India.

Printing and Publications

- More than 15 crores of various Statutory and Non-statutory forms, challan forms, ACR forms including 6 new TDS forms introduced from this year were printed through Govt. of India Presses and distributed to all field officers in the country through authorised transporters in a regular time frame manner. This year new Pre-printed Continuous Computerized Refund Stationery has been got printed through the India Security Press (Nasik) and is being directly supplied by the Press to various Cadre Controlling Chief Commissioners.
- In continuation of the new initiative to promote better tax-payer compliance, challans with tax-payer's name, address and PAN/TAN both in alphanumeric and bar code forms were got pre-printed and mailed to all companies and firms assessed with Income tax Department and the tax deductors for which TAN data base is available with the department.
- The Digest having all Circulars and Instructions by the CBDT from 1.4.1987 to 30.09.2004 developed last year in Compact Disc Version incorporated with a search facility is being updated and will be supplied to the field officers in the country.
- The Compendium of Double Taxation Agreements compiled earlier has been updated and is under print with the Govt. of India Presses.

- Income-tax Act, 2005, Income-tax Rules 2005, Wealth Tax Act, 2005 & Wealth Tax Rules, 2005 both in English and Hindi have been printed and distributed to the field officers all over the country.
- This year the IRS Civil List, 2005 is being brought with the name of the members in Hindi also. Further, the subject wise qualifications and the domicile of the members is also being incorporated. The IRS Civil List, 2005 has been compiled in consultation with CBDT and is under print for distribution to all the officers in the country.
- The Action Plan, which was earlier been provided in the form of Circular, for the F.Y. 2005-06 has been printed in booklet form and distributed to all the officers throughout the country.
- The Explanatory Notes to the provisions relating to the Finance Act (No. 2) 2004 were printed in English and in Hindi and were distributed to all the field officers.
- The Explanatory Notes on Fringe Benefit Tax (English) Circular No. 8 were printed and distributed.
- The publications "Legal Concepts for Income-tax Assessment" and "Completion of Assessment Proceedings and Drafting of Assessment Orders – Some Aspects" were printed and distributed to the field officers.
- CBDT Administrative Bulletins, Direct Tax Bulletins & Quarterly Tax Bulletins are being regularly printed for distribution to all the field officers.

Research and Statistics Wing

Research & Statistics Wing of the Directorate(RSP&PR) is the nodal authority of the Income Tax Department for collection and compilation of various statistics required for running its Management Information Systems (MIS). To meet this requirement, the Wing compiled and released following reports for the year 1004-05 based the information from the field units.

- Monthly report on Appeal Statistics
- Quarterly Progress Report on IT, CT & Other Taxes
- Quarterly Progress Report on Aggregation of Agriculture Income with Non-Agriculture Income
- Quarterly Progress Report on Appeals, References and Writs before ITAT/HC/SC
- Quarterly Progress Report on Write-off of Arrear Demand of Rs.10,000/- and below
- Annual report of 100 Top Income Tax and Wealth Tax Payers.
- Annual report on Direct Taxes for C&AG's Report
- Annual report on Company and Non-Company Profile : The report brought out for the year 2001-02 was revised to incorporate certain changes and modification in various tables. Efforts are on to compile report for the subsequent years for which the matter is being pursued with the Directorate of Income Tax (Systems) for development of necessary software to cull out the information from Assessment Data Base.

Implementation of Official Language Policy

Performance during 1-4-2005 to 15-12-2005 of Official Language Division of the Central Board of Direct Taxes under the control of Directorate of Income Tax (RSP &PR)

- Three quarterly meetings of Official Language Implementation Committee of the Official Language Division of CBDT held during this period under the Chairmanship of Member (P) on 24.3.2005, 5.7.2005 and 26.9.2005 respectively in which Cadre controlling CCsIT/ their representatives participated and discussed the matter regarding implementation of Official Language policy, Annual Programme for this Policy, Hindi Languages/Stenography/typing training etc.
- During this period Parliamentary Committee on Official Language inspected the O/o CCIT, Surat, and Pune and O/o CIT Mysore and Dimapur and O/o Add. CIT Srinagar. This Directorate co-ordinated the inspections helped in preparing the questionnaire and dealt with the correspondence regarding the assurances given to the Committee by the respective Offices. Director of Income Tax (RSP &PR) and Deputy Director (OL) (Hqrs Admn) represented the Board in these inspection meetings.
- Deputy Director (OL) (Hqrs Admn) and Asstt. Director (OL) (Hqrs. Admn) inspected the various offices regarding the progressive use of Hindi viz. CCIT, Pune, Nagpur, Hyderabad, Jodhpur, NADT, Nagpur and O/o JCIT Kurnool.
- Two three days All India Seminars for Asstt. Director (OL)/ Hindi translators of Income Tax Department were held respectively in Darjeeling (Nov. 2005) and Pachmarhi (April, 2005).
- DPC meetings convened. Two senior translators promoted to the post of Asstt. Director (OL) and one Junior translators has promoted to the post of senior translator.
- As per new norms 900 additional Hindi posts are calculated for the Official Language cadre of Income Tax Department and a proposal was submitted for creation of 1/3 (300) posts further, a proposal has been submitted to the Board regarding upgradation of two posts to the post of Joint Director (OL) out of existing five posts of DD(OL) and 19 posts of ADs(OL) to the post of DDs (OL).
- To fill up the 7 posts of Asstt. Directors (OL) on deputation basis a written test and interview was conducted on 5.12.2005. Proposal of appointments will be dispatched during the current month.
- Three quarterly meetings of Official Language Implementation Committee of this Directorate held on 16.3.2005, 23.6.05 and 29.9.2005.
- Hindi workshops were organized on 16.6.2005, 23.8.2005 and 20.9.2005 in this Directorate.
- Manuscript of latest edition of Direct Taxes Glossary has been prepared and is under print.
- Routine work of Official Language Wing such as organizing Hindi fortnight, conducting Hindi Workshop rewarding persons doing noting and drafting in Hindi. Circulation of instructions and holding of meeting were carried out.

4.18 Directorate of Income Tax (O&MS)

This Directorate is an attached office of the Central Board of Direct Taxes, and carries out continuous review of procedures, administrative systems and work/staffing norms, besides providing other policy management services as an internal consultant of the CBDT.

The Directorate also reviews the Central Action Plan, by regularly monitoring the performance of the field offices vis-a-vis the targets set in the Action Plan, through CAP-I statements showing the figures of cash collection, reduction of arrears and current demand of Corporation Tax/Income Tax and CAP-II statements showing the progressive workload and disposal of Income Tax assessments on monthly basis. This Directorate also monitors the performance of the field offices vis-a-vis the targets, on a quarterly basis.

Some of the important assignments completed, are mentioned below:-

i. Modification of different formats of reporting system in the Income Tax Department.

ii. Compilation of half-yearly statements on sanctioned and working strengths of officers and staff in respect of different Cadre Controlling Chief Commissioners of Income Tax.

iii. Preparation of various comparative statistical statements/ tables, highlighting different parameters of CAP-I and CAP-II, in respect of all the CCITs/ DGITs(Inv.) as desired by Board.

iv. Preparation of report on "Simplification of Rules & Procedures and Reduction in number of forms in the Income Tax Department".

v. Preparation of structure of CPIOs/ACPIOs in the Income Tax Department as required under the Right to Information Act, 2005.

vi. Monitoring of implementation of Right to Information Act, 2005 in the Income Tax Department.

vii. Dealing with matters/queries/doubts relating to implementation of Right to Information Act, 2005 as DOMS has been declared the Nodal Authority for clarifying doubts etc. relating to this Act.

4.19 Directorate General of Income Tax (Vigilance)

The Vigilance setup of the Income Tax Department is headed by the Director General of Income Tax(Vig.), who is also the CVO of the Income Tax Department. The Directorate General has its headquarters at New Delhi. Under this, there are four Directorates of Income Tax (Vig.) each looking after the matter pertaining to North, South, West & East Zones, headed by a Director of Income Tax(Vig.) with headquarters at Delhi, Mumbai, Chennai and Kolkata respectively. The four Directors of Income Tax (Vig.) are also the Deputy CVOs of the zone they head for vigilance purposes.

The Director General of Income Tax (Vig.) is under the direct administrative control of CBDT and oversees the processing of vigilance cases, mainly against the Gazetted Officers of the Income Tax Department.

The basic sources of information pertaining to vigilance matters are signed- complaints from the members of public, VIP references, references from CVC and other Departments/ Agencies, periodical inspections etc.

The statistics on various vigilance cases in respect of the Gazetted officers for the period 1.1.2005 to 30.11.2005 is reflected in the tables given below.

Complaints

	Opening Balance as on 01.01.05	Received till the end of the month	Progressive Disposal (till end of the month)	Closing Balance
Received from				
CVC	33	138	78	93
Others	587	1682	1479	790

Action on CVC Advice

Stage	Type	Opening Balance as on 01.01.05	Received till the end of the month	Progressive Disposal (till end of the month)	Closing Balance
I	Major	52	52	56	48
	Minor	22	7	10	19
II	Major	37	18	6	49
	Minor	-	4	3	1

Departmental Inquiries

	Opening Balance as on 01.01.05	Added till the end of the month	Progressive Disposal (till end of the month)	Closing Balance
By CDI	12	21	1	32
By own IO	103	12	24	91

Investigations

	As on January, 2005	Till end of the month	Action recommended (progressive)			
			Major	Minor	Others	Closure
Investigation report by CVO	Nil	63	31	3	11	18

Prosecution Sanctions

Total Pendency as on 01.01.05	Received till end of month	Sanction accorded during the month	Progressive Disposal	Pendency
5	6	-	6	5

In order to streamline the procedure and update knowledge of its field functionaries, vigilance conferences are held at the national and regional levels each year. Issues of importance such as preparation of charge sheet, Investigation of complaints, Preventive vigilance, Inquiry Proceedings, Vigilance Inspections and the Right to Information Act, 2005 etc were taken up for deliberation keeping in view the changing scenario in work culture and ethos in the background of advancing liberalization and the recently introduced Right To Information Act, 2005.

4.20 Director General of Income Tax (Training)

The National Academy of Direct Taxes is the apex institution for training the officers and staff of the Income Tax Department in India. Its basic task is to provide professional training to the officers joining the Indian Revenue Service. The Academy also conducts in-service training courses for officers and staff of the Income Tax Department and other Indian and foreign organizations in coordination with its 8 Regional Training Institutes (RTIs) and 26 Ministerial Staff Training Units (MSTUs).

The Academy is headed by a Director General of Income Tax (Training), who is assisted by two Additional Director Generals and a team of other officers including six Additional Directors, one Joint Director, three Deputy Directors, four Assistant Directors and two Assistant Directors (OL).

There are eight Regional Training Institutes(RTI's) at Bangalore, Kolkata, Hazaribagh, Lucknow, Mumbai, Chennai, Chandigarh and Ahmeabad and 26 Ministerial Staff Training Units(MSTU's) spread all over the country. The RTI's are headed by a Commissioner of Income Tax who are assisted by the officers of the rank of Additional CsIT/ Joint CsIT, Deputy CsIT and Income Tax Officers. They also monitor the working of the MSTU's of their region.

In addition to the Induction Course for the IRS Officer Trainees, the Academy conducts a number of courses for officers of different ranks. These include various courses on Taxation, Law and other related subjects including a number of Management Development Programmes. The Academy has made a conscious effort to sensitise the trainees and other officers on important areas such as gender issues at workplaces, ethics/value in public life, image building & Citizen's Charter and promotion of Official Language of the Union. All long-duration courses usually have sessions on these topics.

The training methodology, apart from lectures by both in-house and guest faculty members, includes panel discussions, case studies, group discussions, workshops, seminars, role plays & simulation exercises and tutorials.

4.21 Directorate General of Income Tax (Exemption)

The Directorate General of Income Tax (Exemption) performs the duties as envisaged in the Income Tax Act, 1961 relating to grant of exemptions under various sections of the I.T.Act viz. Section 10(23C)(iv), (v), (vi), (via), Section 35 (1)(ii) & (iii), Section 10(17A), Section 80G (2)(v).

The Office of the Director General of Income Tax(Exemption), New Delhi has jurisdiction over seven Directorates of Income Tax placed at Bangalore, Hyderabad, Mumbai, Chennai, Kolkata, Ahmedabad and Delhi.

During the year ending 31.3.2005, disposal under various sections of the Income Tax Act in this Directorate is as under:-

(i)	Cases processed and report sent to the CBDT for notification u/s.35(1)(ii) & (iii) of the I.T.Act, 1961	95
(ii)	Cases processed and report sent to the CBDT for notification u/s.10(23C)(iv) & (v) of the I.T.Act, 1961	53
(iii)	Cases processed u/s.10(23C)(vi) & (via) of the I.T.Act and notification issued/report sent to CBDT	80
(iv)	Total number of scrutiny cases completed by various Directorates u/s.143(3) of the I.T.Act, 1961	1160

4.22 Directorate of International Taxation

The increasing participation of multi-national groups in economic activities in the country has given rise to new and complex issues emerging from transactions entered into between two or more enterprises belonging to the same multi-national group. The profits derived by such enterprises carrying on business in India can be controlled by the multi-national group, by manipulating the prices charged and paid in such intra-group transactions, thereby, leading to erosion of tax revenues.

With a view to provide a detailed statutory framework which can lead to computation of reasonable, fair and equitable profits and tax in India, in the case of such multinational enterprises, the Finance Act 2001has substituted section 92 with a new section, and has introduced new sections 92A to 92F in the Income-tax Act. The basic intention underlying the new transfer pricing regulations is to prevent shifting out of profits by manipulating prices charged or paid in international transactions, thereby eroding the country's tax base.

To carry out this work Directorate of International taxation were set up at Delhi, Mumbai, Kolkata, Chennai and Bangalore vide CBDT Notification (S.O.881 (E) dated 14th September, 2001. The five stations were chosen considering the concentration of activities of foreign companies at these places All function relating to assessment of foreign companies and other non-resident as well as tax withholding from payments made to them were assigned to these Directorates.

After the introduction of detailed transfer pricing regulations by the Finance Act 2001, the Board decided to have the complex functions of transfer pricing audits done by special cells. Directorates of Transfer Pricing were accordingly setup at the 5 stations in 2002.

4.23 Directorate of Infrastructure

The Directorate of Infrastructure is responsible for the development of Department's infrastructure and asset management throughout the country. The functions includes drawing up of construction programs on all-India basis and their implementation .These *inter alia* entailed acquisitions of land, construction as well as purchase of office and residential buildings, hiring of office premises, repairs, renovation and maintenance of the departmental buildings.

The infrastructure proposals received from the field formations were processed by the Directorate and recommended to the Competent Authority (Integrated Finance Unit, Standing Finance Committee & Committee for Non-plan Expenditure) for Administrative and Expenditure sanction. In addition, the Directorate formulated the budget for purchase of office and residential accommodations; attended to Parliament questions, VIP and MP references, court cases, and other miscellaneous matters.

4.24 Directorate (Legal & Research)

As per the Notification No.1/2005 dated 30th May, 2005 of Govt. of India, Ministry of Finance, Department of Revenue, Central Board of Direct Taxes, the Directorate of (Legal) was created.

All SLP proposals from the field are received by the Directorate (L&R). After examining the proposals, the files are put up to Member (A&J) with specific comments regarding suitability of filing SLP. After obtaining approval of Member (A&J), the files are sent to Ministry of Law for further processing for filing of SLP. All follow up actions during the hearing stage of the SLPs are also taken by the Directore (L&R). The Directorate has started functioning from 26th September, 2005. A database of the SLPs is under preparation in the Directorate (L&R). Since 26.09.2005, this Directorate has processed 407 SLP matters till date.

4.25. Directorate of Income Tax (Systems)

The performance and achievements of this Directorate, during the current financial year, are given under '**E-Governance in Central Board of Direct Taxes**" of **Chapter 23**- "**E-Governance**".

5. NARCOTICS CONTROL DIVISION

The Department of Revenue is responsible for the administration of Narcotic Drugs and Psychotropic Substances Act 1985 (NDPS Act, 1985) which sets out the statutory framework for drug administration in India. Three separate authorities were earlier established for the purposes of cultivation of opium, manufacture of opiates, and combating drug menace. These three authorities are:

(A) Central Bureau of Narcotics (CBN)

(B) Government Opium & Alkaloid Works (GOAW), Neemuch and Ghazipur under the Chief Controller of Factories (CCF)

(C) Narcotics Control Bureau (NCB)

The administrative control of Narcotics Control Bureau has now shifted from the Ministry of Finance, Department of Revenue to the Ministry of Home Affairs. The two organisations, namely, CBN and GOAW continue to remain under the administrative control of the Narcotics Control Division, Ministry of Finance, Department of Revenue.

(A) Central Bureau of Narcotics (CBN)

Functions/Working

1. About Licit Opium Cultivation

Under the provisions of Section 5(2) of the NDPS Act, the Government of India has constituted the Central Bureau of Narcotics headed by the Narcotics Commissioner of India for purpose of superintendence of the cultivation of opium poppy and production of opium. On the basis of recommendations received from the CBN, assessment of the requirement of opium and after extensive consultation with other concerned organizations and the representatives of the public, the Government of India announces the opium policy for a crop year, which includes, among other things, general terms and conditions for licensing of the opium cultivators and the area required to be licensed for opium cultivation.

The licit cultivation of opium poppy is carried out in the notified tracts in the States of Madhya Pradesh, Uttar Pradesh and Rajasthan. During the crop year 2004-05, 439 tons of opium at 70 degree consistence was procured. The average yield at 70 degree consistence on basis of provisional results received from MP, Rajasthan and UP for the crop year 2004-05 was 58.56, 53.85 & 43.15 kg/hectare respectively. The All India average yield during 2004-05 was 56.04 kg/hectare at 70 degree consistency (provisional). The All India average yield per hectare is lower by about 2 kg/hectare as compared to the preceding crop year 2003-04.

The CBN has issued opium cultivation licence to 72480 cultivators for a total area of 7250 hectares for the crop year 2005-06.

Control over trade of Narcotic Drugs, Psychotropic Substances and Precursor Chemicals

India is a signatory to the United Nation's Single Convention on Narcotic Drugs, 1961, Convention on Psychotropic Substances, 1971 and the Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, 1988.

The CBN is also responsible for the regulation over manufacture of narcotic drugs and psychotropic substances and the control over the import and export of narcotic drugs, psychotropic substances and precursor chemicals and prevention of their diversion from the licit international traffic. The CBN also undertakes action to prevent illicit traffic in narcotic drugs, psychotropic substances and precursor chemicals.

In India control over narcotic drugs and psychotropic substances and precursor chemicals is exercised through the provisions of the Narcotic Drugs & Psychotropic Substances Act, 1985. Narcotics drugs and psychotropic substances (other than those which are prohibited) can be imported into India under an Import Certificate (IC) issued by the Narcotics Commissioner. Similarly, narcotics drugs and psychotropic substances can be exported out of India under an Export Authorisation (EA) issued by the Narcotics Commissioner.

As the Competent Authority, the Central Bureau of Narcotics is responsible for issue of import certificates, export authorizations and No Objection Certificates (NOCs) for import and export of Narcotic Drugs & Psychotropic Substances (NDPS) and Precursor Chemicals into / out of the country. Considering the sensitive nature of narcotic drugs and psychotropic substances and their precursors strict vigilance is maintained over the issuance of ICs/ EAs/NOCs.

Enforcement of the NDPS Act, 1985

The CBN undertakes action to prevent the illicit traffic in Narcotics Drugs and Psychotropic Substances and Precursor Chemicals. It also undertakes investigation and prosecution of drug related offences, tracing and freezing of property of drug traffickers derived from illicit drug trafficking for forfeiture and confiscation.

During the year 2005 (upto 30.11.05), as a result of financial investigation undertaken by the Central Bureau of Narcotics total movable/immovable properties of drug traffickers and their relatives worth Rs. 1,36,02,175/- in four cases has been frozen under the provisions of NDPS Act, 1985.

Central Bureau of Narcotics had also taken action to detain drug traffickers under the provisions of PITNDPS Act, 1988 and during the year 2005 (upto 30.11.05) 12 persons were detained by orders of Detaining Authority. Detention against 11 persons has been confirmed by the Advisory Board whereas detention order in respect of one person was revoked.

During the year 2005 (upto 30th November, 2005), a total quantity of 89 kgs of opium, 15 kgs of heroin, 15 kgs of morphine, 2 kgs of charas, 2323 kgs of ganja and 6243 kgs of poppy husk, 214 ltrs. acetic anhydride has seized and total 60 persons were arrested under various offences under NDPS Act 1985.

Achievements of Central Bureau of Narcotics

(i) Satellite Imagery for estimation of licit opium poppy cultivation and damage to poppy crop

In association with the Advanced Data Research Institute under Department of Space, Hyderabad and the Indian Institute of Remote Sensing, Dehradoon, CBN has undertaken a pilot project for estimation of the area under licit opium poppy cultivation through Remote Sensing. Further, experiments are being conducted to apply this technique to assess the extent of damage to opium poppy crop due to natural calamities. The technique has also been utilised on a pilot scale in year 2005 to determine the extent of damage, if any, to the opium poppy crop on account of hailstorm/rains, which occurred in some parts of Rajasthan in March, 2005.

(ii) Implementation of Smart Card Project for opium poppy cultivators

Central Bureau of Narcotics has undertaken a project for implementation of Smart Card Project for opium poppy cultivators. The Smart Card of the cultivators will have a Microchip containing statistical data regarding the past performance of the cultivators in respect of licensed area, cultivated area, opium produced and price paid to the cultivators etc. A Smart Card Project to digitise the process of collection of data related to cultivation and transmission of the data for further compilation and generation of reports has been successfully tested for the crop year 2004-05 in two Opium Divisions of Chittorgarh-I and Neemuch-I. The Project is being expanded to cover all the 17 Opium Divisions located in the State of Madhya Pradesh, Rajasthan and Uttar Pradesh.

The Project once implemented will enable monitoring of various cultivation activities and would also be able to use for policy level decisions including optimum deployment of men and resources to strengthen controls.

(iii) Joint Licit Opium Poppy Survey (JLOPS).

The Central Bureau of Narcotics has also undertaken a scientific project (JLOPS) in the field to develop a methodology for estimation of opium gum yield and to ascertain how yield dependent on capsule volume size as well as to study other factors like weather condition type of soil, climatic zone, humidity and temperature etc. Joint Licit Opium JLOPS Experiments are being carried out in association with US and Indian Agricultural Scientists to examine the influence of various factors and parameters on the opium yield. Such JLOPS experiments have also been planned during the present crop year 2005-06.

(iv) Public grievances set-up functioning in CBN

The Central Bureau of Narcotics deals with the licences of poppy cultivation. In order to redress various grievances of opium poppy cultivators, a Public Grievance Committee functions at the Headquarters of unit Dy. Narcotics Commissioner at Neemuch, Kota and Lucknow. The periodicity of the meeting of the Committee is quarterly and monthly in cultivation season.

(v) Right to Information Act, 2005

The various provisions relating to the Right to Information Act, 2005 have been implemented in the Central Bureau of Narcotics. Central Public Information Officers has been notified. Detail functions and various aspects of the work done by the CBN are also available on CBN website http://cbn.nic.in

(B) Government Opium and Alkaloid Works (GOAW)/Chief Controller of Factories

The Government Opium & Alkaloid Works (GOAW) are engaged in the processing of raw opium for export and manufacturing opiate alkaloids/Active Pharmaceutical Ingredients through its two Factories viz Govt. Opium & Alkaloid Works (GOAW) at Ghazipur (U.P.) and Neemuch (M.P.). The Products manufactured at GOAW are mainly used by the pharmaceutical industry of India for preparation of cough syrup, pain relievers and tablets for terminally ill cancer and HIV patients. The GOAW is administered by a High Power Body called the "Committee of Management" constituted and notified by the Government of India in 1970. The Additional Secretary (Revenue), Department of Revenue, Ministry of Finance is the Chairman of the Committee of Management. An officer of the level of Commissioner/Joint Secretary is the Chief Controller of Factories who heads the Organisation and each of the two factories at Neemuch and Ghazipur are managed by a General Manager of the rank of Additional Commissioner/Director. The Marketing and Finance Cells of the factories are located at New Delhi. Each of the factories comprises two units – the Opium Factory and the Alkaloid Works. The Opium Factories undertake the work of receipt of opium from the fields, its storage and processing for exports and domestic consumption. The Alkaloid Works are engaged in processing raw opium into alkaloids of pharmacopoial grades to meet the domestic demand of the pharmaceutical industry. The GOAW employ a total work force of 1400 people at its two opium and alkaloid plants. The work force comprises officials and staff drawn from the Central Board of Excise and Customs, Central Bureau of Narcotics, Central Revenues Control Laboratory apart from personnel selected by the Union Public Services Commission directly. The security aspects of these factories are looked after by the Central Industrial Security Force (CISF), a paramilitary force of the Ministry of Home Affairs.

The achievements during the period April to November of current year 2005-2006 are as follows: -

ACHIEVEMENT OF CCF ORGANISATION

UPTO THE MONTH OF NOVEMBER 2005 WITH COMPARATIVE DATA OF PREVIOUS YEAR i.e. 2004 FOR THE SIMILAR PERIOD

Sl. No.	Particulars	Unit	Actual Production Up to November 2004-05	2005-06	% age increase over previous year
(1)	(2)	(3)	(4)	(5)	(6)
	A. PRODUCTION				
1	Drying of opium for Export at 90 C	MT.	261	263	1
2	Manufacture of Drugs :				
	a) Codeine Sulphate	KGS	—	203	100
	b) Morphine salts	KGS	37	26	- 30
	c) Codeine phosphate	KGS.	5338	5733	7
	d) Dionine	KGS	42	203	383
	e) Pure Thebaine	KGS	352	226	- 26
	f) Noscapine BP	KGS.	481	1711	256
	g) Pholcodine	KGS.	—	5	100
	h) IMO Powder	KGS	1055	1040	- 1
	i) IMO Cake	KGS	517	967	87
	Total (2)		**7822**	**10114**	**29**

B. SALES

Sl.	Particulars	2004-05 Qty. (Kgs.)	(Rs./ Crores)	2005-06 Qty. (Kgs)	(Rs./ Crores)
(1)	(2)	(3)	(4)	(5)	(6)
1	Export of opium on accrual basis	117913	45.65	321284	104.10
2	Domestic Sale of Drugs : (on actual basis)				
	a) Codeine Sulphate	54	0.20	120	0.44
	b) Morphine salts	49	020	35	0.14
	c) Codeine Phosphate	8819	29.10	13533	44.57
	d) Dionine	242	1.04	211	0.91
	e) Pure Thebaine	280	1.19	350	1.49
	f) Papavarine	102	0.04	297	0.06
	g) Noscapine BP	813	1.79	1727	3.97
	h) Pholcodine	—	—	5	0.03
	i) IMO Powder	661	0.23	1437	0.53
	j) IMO Cake	963	0.30	1081	0.34
	Total	11983	34.09	18796	52.48
	Grand Total (1+2)	**129896**	**79.74**	**340080**	**156.58**

C COUNTRY WISE EXPORT OF OPIUM

(Qty. in MTS) at 90 C

Unit	USA	FRANCE	GERMANY	JAPAN	IRAN	TOTAL
2004-05						
Ghazipur	0	0	0	55	0	55
Neemuch	52	0	1	0	10	63
Total	52	0	1	55	10	118
2005-06						
Ghazipur	34	0	0	50	0	84
Neemuch	237	0	0	0	0	237
Total	271	0	0	50	0	321

D REVENUE RECEIPTS ON REALISATION BASIS

(Rs. in Crores)

Unit	Opium Factories	Alkaloid	Total Works
2004-05			
Ghazipur	23.94	12.15	36.09
Neemuch	43.86	22.16	66.02
Total	**67.80**	**34.31**	**102.11**
2005-06			
Ghazipur	10.42	10.04	20.46
Neemuch	61.86	41.74	103.60
Total	**72.28**	**51.78**	**124.06**

The air pollution as well as water pollution at the factories due to the processing of opium/alkaloids is kept under strict control by implementing various measures laid down by the Pollution Control Boards of the concerned States. The disposal of effluents is made as per the guidelines and instructions of the concerned Boards. At both the factories, Effluent Treatment Plants are operational.

6. CENTRAL ECONOMIC INTELLIGENCE BUREAU

Organisation and Functions

The Bureau is headed by a Special Secretary cum Director General who is assisted by Deputy Director Generals, Joint Secretary (COFEPOSA), Assistant Director Generals, Under Secretaries, Senior Technical Officers and other staff. The Bureau has a sanctioned strength of 113 officers & staff.

The Charter of CEIB mandates it to concentrate on its two roles, of functioning as the secretariat for the Economic Intelligence Council (EIC) and the other related to economic intelligence (ECOINT). In the light of this mandate, the emphasis of Bureau's functioning is on the operational coordination between different enforcement and investigation agencies dealing with economic offences. The Bureau receives intelligence reports from all sources of ECOINT, collates, analyses and disseminates them among the users / consumers /decision makers. The Bureau keeps a watch on different aspects of economic offences and emergence of new types of such offences; coordinates the functioning of Regional Economic Intelligence Committees (REICs) and implements the COFEPOSA Act. It also organises training programmes in premier training institutions for officers of the Department of Revenue.

The Bureau also supervises and monitors the functioning of 18 Regional Economic Intelligence Committees (REICs) which are nodal agencies at the field level and have been constituted for coordinating work amongst various enforcement and investigative agencies dealing with economic offences at regional level.

Performance of the Bureau

Keeping in view the revised mandate of REIC, the existing coordination arrangements with REICs have been strengthened to ensure closer coordination among the constituent REIC members. The REICs are being encouraged to convene the Meetings at regular intervals and also ensure participation by the designated officers from the Department/agencies represented. As a result there has been improvement in the frequency of the meetings of REICs. There has also been improvement in the sharing of information and the quality of information being shared in the REICs.

Major activities undertaken by the Bureau during the current financial year (upto January, 06)

* An inter-agency group of officers met in CEIB under the Chairmanship of SS&DG CEIB on 12.04.2005 to deliberate upon various intelligence and policy issues. The recommendations were submitted for the consideration of the Working Group on the Intelligence apparatus pertaining to the Economic Intelligence Council (EIC).
* The Working Group on the intelligence apparatus pertaining to EIC met under the Chairmanship of Revenue Secretary on 10.06.2005 and finalized the Agenda for the consideration of the EIC.
* SS&DG, CEIB presided over a Convener's conference held at Mumbai on 15.07.2005. The conference was attended by all DGIT(Inv.) / Chief Commissioner(C&CE) in their capacity of Convener of their respective REICs. The meeting discussed various problems and current issues common to all REICs.
* The Finance Minister presided over the meeting of EIC held on 23.11.2005 in which various institutional and strategic issues were discussed. Besides the members of EIC the meeting was also attended by the National Security Adviser.
* As per the directions of the Hon'ble Finance Minister during the EIC meeting, a Nodal Group of various intelligence agencies has been formed under the umbrella of CEIB. The major task of the Bureau is to ensure increased co-ordination amongst various intelligence agencies to strengthen economic and national security. A protocol has been devised by the Bureau for sharing of raw information between the various intelligence agencies. The informations are being regularly received from various agencies and the same are being disseminated by the Bureau to the relevant agencies . The first meeting of the nodal officers was held in CEIB on 15.12.2005 and the second meeting was held on 17.01.2006.
* The Bureau took up the matter with DRI, Chief Commissioners of Customs of all zones, BSF, and Chief Conservator of Forests of all states calling for periodical reports/intelligence inputs about Environment and Forests specifically pertaining to Trans-border illegal trade of various wildlife creatures and plants; illegal import and dumping of hazardous wastes; surveillance on manufacture and transport of hazardous chemicals; smuggling of exotic marine plants and aquatic creatures.
* The Bureau has been providing information to NSCS from time to time about significant cases of seizure of Fake Indian Currency Notes and about trends in printing, smuggling and circulation of FICN on the basis of inputs received as well as reports on specific points referred to by NSCS on the said subject matter. CEIB has also been projecting the trends in printing, smuggling and circulation of FICN, which are based on the reports received from various agencies, and informing the same to NSCS.
* The Bureau continued to receive seizure/offence reports from field formations of Central Excise & Customs. During the current financial year so far, the Bureau has referred 131 reports or excise and 32 reports of customs to the REIC concerned for taking up in their meetings.
* The Bureau also receives intelligence from the field formations of Central Excise, Customs and Income Tax. These items of intelligence are examined for all India ramifications and policy changes. They are then forwarded with appropriate advice for issuing Modus Operandi circulars, other action etc. to the office concerned viz. DGCEI, DRI, CBEC, CBDT.

Administration of COFEPOSA Act

The overall administration of the COFEPOSA Act, 1974 including monitoring of action taken by the State Governments is one of the functions performed by CEIB. Despite policies of economic liberalisation introduced during the past few years, acts of violations of economic laws continue to take place. The COFEPOSA Act, 1974 (Conservation of Foreign Exchange and Prevention of Smuggling Activities Act), acts as a deterrent against menace of smuggling and foreign exchange racketeering. During the period 1st April, 2005 to 31st December, 2005, twelve detention orders were issued by the specially empowered officer of the Central Government. Fifteen persons were, however, actually detained during this period, including those against whom Detention Orders were issued by the specially empowered officers of the Central Government during this year and previous years.

Bulletins/Publications

The Bureau brings out a **"Newsletter & Intelligence Digest"** compiling trends in economic offences with details included which is a useful reference material for different institutions and field formations dealing with economic subjects.

A consolidated publication in the form of **"Compendium of Economic Trends, Offences and Analysis"** is also brought out at the end of the year that is under progress.

Publication of **ENVIROSCAN** periodically is undertaken by the Bureau to bring out cases having a bearing on the environment.

Training

To enhance the investigative skills of officers of Department of Revenue in intelligence gathering techniques etc. the Bureau has organized training courses at various specialized training institutions. During the year 2005-06, the following programmes were organized:

* ‘Regulations & Frauds in the Insurance Sector’ at the National Insurance Academy, Pune;
* ‘Cyber Crimes’ at Sardar Vallabhai Patel Police Academy, Hyderabad;
* ‘Investigation of Economic Crime in Financial & Capital Market’ at Indian Institute of Capital Markets, Mumbai;
* ‘Banking operations & Fiscal Law Enforcement’ at State Bank Staff College, Hyderabad.
* “Intelligence gathering & Intelligence tradecraft” at Directorate of Military Intelligence and Training, Pune.
* “Intelligence gathering & Intelligence tradecraft” at Cabinet Sectt. Training Institute, Gurgaon.

Paper

The Bureau undertook the study on the import of electronic waste in India Comprehensively. The copy of the study report**-”INDIA-The Favourite E- Waste Destination”** was furnished to

(i) Ministry of Environment and Forests.

(ii) Directorate General of Foreign Trade and

(iii) Director, NSCS.

As per the information received by the Bureau from the Directorate General of Foreign Trade office, the Comments/views from Department of Commerce, Ministry of Environment and Forests, Department of Revenue, have been called for on the said study Report by DGFT in Nov,2005.

Intelligence regarding illegal trading of endangered species of flora & fauna are being exchanged by this Bureau with the concerned agencies.

Pending Audit Objections

As on 25th January, 2006, no audit paras are pending.

7. DIRECTORATE OF ENFORCEMENT

Organisation and Functions

The Directorate of Enforcement was set up in 1956 to conduct investigations into violations of provisions of Foreign Exchange Regulation act, 1947. After repeal of FERA, 1973 the Directorate was mandated primarily as the investigating and adjudicating agency under Foreign Exchange Management Act, (FEMA), 1999. In addition, Prevention of Money Laundering Act (PMLA), 2002 has come into force w.e.f. 1.7.05 and its enforcement has been entrusted to this Directorate. The Directorate has framed comprehensive Rules under the PMLA, 2002 which have since been notified w.e.f. 1.7.05.

Presently the Directorate is having seven Zonal Offices at Ahmedabad, Bangalore, Chennai, Delhi, Jalandhar, Kolkata and Mumbai. Besides, the Directorate has sub-zonal offices at Agra, Kozhikode, Guwahati, Panaji, Hyderabad, Jaipur, Srinagar, Thiruvananthapuram and Varanasi. There is also a field unit at Madurai.

The Directorate has submitted a reorganization proposal to Ministry in the context of transaction from FERA to FEMA and added responsibility in connection with implementation of PMLA.

The main functions of the Directorate are as under: -

(i) To collect, develop and disseminate intelligence relating to violations of FEMA, 1999, the intelligence inputs are received from various sources such as Central and State Intelligence agencies, complaints etc.

(ii) To investigate suspected violations of the provisions of the FEMA, 1999 relating to activities such as “hawala” foreign exchange racketeering, non-realization of export proceeds, non-repatriation of foreign exchange and other forms of violations under FEMA, 1999.

(iii) To adjudicate cases of violations of the erstwhile FERA, 1973 and FEMA, 1999.

(iv) To realize penalties imposed on conclusion of adjudication proceedings.

(v) To handle adjudication, appeals and prosecution cases under the erstwhile FERA, 1973

(vi) To process and recommend cases for preventive detention under the Conservation of Foreign Exchange and Prevention of Smuggling Activities Act (COFEPOSA)

(vii) To undertake survey, search, seizure, arrest, prosecution action etc. against offender of PMLA offence, apart from undertaking freezing and confiscating proceeds of crimes related to scheduled offences under PMLA.

(viii) To provide and seek mutual legal assistance to/from contracting states in respect of attachment/confiscation of proceeds of crime as well as in respect of transfer of accused persons under PMLA.

Performance and Achievements During 2005-06

Highlights of the achievements during the financial year 2005-06 (upto November 2005) are as follows: -

(i) Adjudication of FERA 1973 Cases:

439 FERA cases have been adjudicated

(ii) Adjudication of FEMA, 1999 cases:

362 FEMA cases have been adjudicated.

(iii) Recovery of Penalty under FERA, 1973:

The penalty totaling Rs.627.65 lakhs has been realized during 2005-06(upto Nov.)

(iv) Recovery of Penalty under FEMA, 1999:

The penalty recovered under FEMA 1999 in adjudication cases is Rs.74.97 lakhs

(v) Confiscation of Indian currency under FERA, 1973:

(a) The amount of confiscated Indian Currency of Rs.241.01 lakhs has been credited into central Govt. Account.

(b) Besides an amount of Rs.90.40 lakhs of Indian currency has been ordered to be confiscated consequent upon passing of Adjudication Orders. The Confiscation of this amount and its credit into Central Govt account would take place after completion of legal processes.

(vi) Confiscation of Foreign Currency under FERA 1973:

(a) The amount of confiscated Foreign currency of Rs.174.29 lakhs has been credited into Central Govt. Account

(b) Besides an amount of Rs.07.47 lakhs of Foreign Currency has also been ordered to be confiscated consequent upon passing of Adjudication Orders. The confiscation of this amount and its credit into Central Govt. account would take place after completion of legal processes.

(vii) Confiscation of Indian currency under FEMA, 1999:

(a) The amount of confiscated currency of Rs.88.36 lakhs has been credited into Central Govt. Account

(b) Besides, an amount of Rs.89.67 lakhs of Foreign Currency has also been ordered to be confiscated consequent upon passing of Adjudication Orders. The confiscation of this amount and its credit into Central Govt. account would take place after completion of legal processes.

(viii) Confiscation of Foreign Currency under FEMA, 1999:

(a) The amount of confiscated currency of Rs.16.89 lakhs has been credited into Central Govt. Account

(b) Besides, an amount of Rs.11.17 lakhs of Foreign Currency has also been ordered to be confiscated consequent upon passing of Adjudication Orders. The confiscation of this amount and its credit into Central Govt. account would take place after completion of legal processes.

(ix) Disposal of enquiries under FEMA, 1999:

1307 enquiries have been disposed of

(x) Disposal of prosecution cases under FERA, 1973:

Number of prosecution cases disposed of was 149

The statistical information relating to various activities of the Directorate during financial year 2004-05 (upto Nov.) are shown in Annexure below.

The Directorate has made endeavor for the abatement of pollution as well as other environmental protection initiatives. The Directorate takes care to intensify its drive against smoking in the office and also made its vehicles environment friendly by installation of CNG kits etc.

Annex

The statistical information relating to various activities of the Directorate during financial year 2004-05 (upto Nov.)

A.	**SEARCHES & SEIZURES**			**FEMA**	
1	Searches conducted			106	
2.	FE seized(Rs. in lakhs)			24.93	
3.	IC seized(Rs. in lakhs)			708.23	
B	**INVESTIGATION**				
1.	Initiated			915	
2.	Disposed			1307	
3.	Pending			5650	
4.	SCNs issued			547	
5.	Amt. involved in SCNs issued(Rs. in crores)			73.93	
C	**ADJUDICATION**	**FERA**		**FEMA**	**TOTAL**
1.	Cases adjudicated	439	+	362	801
2.	Cases pending adjudication	3905	+	847	4752
3.	Confiscation of foreign exchange(Rs. in lakhs)	07.47	+	11.17	18.64
4.	Confiscation of Indian currency(Rs. in lakhs)	90.40	+	89.67	180.07
D	**PENALTIES**				
1.	Imposed (Rs. in lakhs)	57808.57	+	1707.49	59516.06
2.	Realised(Rs. in lakhs)	627.65	+	74.97	702.62
3.	Pending	536335.73	+	23615.92	559951.65
E	**COFEPOSA**				
1.	Orders issued	Nil	+	02	02
2.	Detained	03	+	02	05
F	**PROSECUTIONS**				
1.	Disposal	149			
	(i) Conviction	42			
	(ii) Acquittal	08			
	(iii) Discharge	10			
	(iv) Withdrawn	09			
	(v) Otherwise	80			
II	Pending	4717			

8. SET UP FOR FORFEITURE OF ILLEGALLY ACQUIRED PROPERTY

The Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act, 1976 (SAFEM(FOP)A), provides for forfeiture of illegally acquired property of the persons convicted under Sea Customs Act, 1878, Customs Act, 1962, Foreign Exchange Regulation Act, 1947 and Foreign Exchange Regulation Act, 1973 and the persons detained under Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974. The Narcotic Drugs and Psychotropic Substances Act, 1985 (NDPSA) provides for tracing, freezing, seizure and forfeiture of illegally acquired property of the persons convicted under that Act or any corresponding law of any foreign country, and those who are detained under Prevention of Illicit Traffic in Narcotic Drugs and Psychotropic Substances Act, 1988 and Jammu & Kashmir Prevention of Illicit Traffic in Narcotic Drugs and Psychotropic Substances, Act, 1988.

SAFEM(FOP) Act and NDPS Act provide for appointment of Competent Authorities for carrying out forfeiture of illegally acquired property. The offices of Competent Authorities are located at Kolkata, Chennai, Delhi, Lucknow and Mumbai. SAFEM(FOP)A and NDPSA envisage establishment of an appellate forum, namely the Appellate Tribunal for Forfeited Property (ATFP) to hear appeals against the orders of the Competent Authorities. The ATFP is located at New Delhi. It consists of a Chairman who is, or has been, or is, qualified to be a Judge of the Supreme Court or High Court and two Members who are appointed from among the officers of the Central Government who are not below the level of Joint Secretary to the Government of India.

During the year 2005-2006 (up to September, 2005), the Competent Authorities forfeited property worth Rs.157.65 lakhs in 17 cases. The details regarding the number of reports received by the Competent Authorities from enforcement agencies, the number of show cause notices issued and the value of the property involved therein, the number of orders of forfeiture passed and the value of the property involved therein, and the value of sale proceeds of the property disposed of, year-wise, from 2000-2001 to 2005-2006 (upto September, 2005), are given in the Annexure below.

In ATFP, during the period from 1st April, 2005 to 31st December, 2005, a total number of 33 Appeals and 47 Miscellaneous Petitions under SAFEM(FOP)A, and 31 Appeals and 30 Miscellaneous Petitions under NDPSA, were filed. During the same period, 94 Appeals/Miscellaneous Petitions were disposed of.

Annex

Forfeiture of Illegally Acquired Property under NDPSA and SAFEM (FOP)A

F.Y	Number of Reports received from Enforcement Agencies	Number of Notices for Forfeiture Issued and Value of the Property Involved		Number of Forfeiture Orders Issued and Value of the Property Involved		Value of Sale Proceeds of Property Disposed of
		Number	Value *(in Rs lakhs)*	Number	Value *(in Rs lakhs)*	*(in Rs lakhs)*
2000-2001	491	159	2755	103	1662	201
2001-2002	228	89	7223.12	50	3202.39	107
2002-2003	995	72	1269.22	53	2498.60	18
2003-2004	1180	97	1547.75	25	977.01	51.6
2004-05	1357	162	3251.64	25	650.93	73.67
2005-06*	931	136	2117.58	17	157.65	167.26

**upto October, 2005*

9. SALES TAX SECTION

9.1 The Sales Tax Section of the Department of Revenue handles legislative work relating to Central Sales Tax levied on inter-State sale of goods. In addition, the Sales Tax Section also deals with matters relating to the State Value Added Tax (VAT), Indian Stamp Act, 1899, Service Tax Legislation for levy of tax on services and matters related to Additional Duties of Excise (in lieu of sales tax).

State Value Added Tax (VAT)

9.2 Introduction of State VAT is the most significant tax reform measure at State level. The State VAT being implemented presently is to replace the existing Sales Tax systems of the States. Under Entry 54 of List II (State List) in the Seventh Schedule to the Constitution of India, 'tax on sale or purchase of goods within a State' is a State subject. The Government of India has constituted an Empowered Committee of State Finance Ministers (EC) to deliberate upon and decide all issues concerning Sales Tax Reforms/ State VAT. The decision to implement State VAT was taken in the meeting of the EC held on 18 June 2004, where a broad consensus was arrived at amongst the States to introduce VAT w.e.f. 01 April 2005. Accordingly, VAT has been introduced by 25 States/ UTs upto 31 Dec. 2005. 8 States/ UTs are yet to introduce VAT. These are UP, Tamil Nadu, Rajasthan, Gujarat, MP, Chattisgarh, Jharkhand and Pondicherry. The remaining 2 UTs (Andaman & Nikobar Islands and Lakshdweep) do not levy sales tax/ VAT.

9.3 Since Sales Tax/ VAT is a State subject, the Central Government is playing the role of a facilitator for successful implementation of VAT. Some of the steps taken by the Central Government in this regard are as follows:

(a) A package for payment of compensation to States for possible revenue loss on account of introduction of VAT has been announced.

(b) A Model VAT Bill was got prepared and circulated amongst the States to help them in preparation of their VAT Bills. Similarly, an Audit Manual for VAT was also got prepared and circulated.

(c) Technical and financial support is being provided to 11 North Eastern/ Special category States to enable them to take up VAT computerization and other necessary steps.

(d) Financial support is also being provided to the Empowered Committee as well as the States for undertaking publicity campaigns for VAT.

(e) 50% funding for the TINXSYS Project is also being provided.

9.4 The initial experience of implementation of VAT has been quite encouraging. The new system has been generally received well by the business community as well as the general public. The initial trend of revenue collection in the VAT implementing States is quite encouraging. During first 7 months of VAT implementation (April-Oct. 2005), the tax revenue for VAT implementing States has shown an increase of about 14.4%, which is higher than the CAGR of tax revenue for last 5 years for these States.

9.5 At this stage, one major issue of concern is that the States/ UTs which have not yet implemented VAT, should implement the same at the earliest. Many of the benefits of the VAT system like simple and uniform tax structure all over the country and resultant development of common market will be fully available, only when all the States/ UTs implement VAT. The Empowered Committee is in the process of persuading these States/ UTs to implement VAT.

Central Sales Tax (CST)

9.6 Entry 92A of List I (Union List) empowers the Central Government to impose tax on inter-State sale of goods. Further, Article 269 (3) empowers the Parliament to formulate principles for determining when a sale or purchase of goods takes place in the course of inter-State trade of commerce. Similarly, Article 286 (2) of Constitution empowers the Parliament to formulate principles for determining when the sale or purchase of goods takes place outside a State or in the course of imports into or exports from India. Besides the above, Article 286 (3) of Constitution authorizes the Parliament to place restrictions on the levy of tax by the States on sale or purchase of goods, declared by the Parliament by law to be goods of special importance in the inter-State trade or commerce. The Central Sales Tax Act, 1956 imposes the tax on inter-State sale of goods and formulates the principles and imposes restrictions as per the above-mentioned powers conferred by the Constitution. Though the Central Sales Tax Act 1956 is a Central Act, the State Governments collect and appropriate the proceeds of Central Sales Tax as per Article 269 of the Constitution of India. The Government of India has also framed the Central Sales Tax (Registration and Turnover) Rules, 1957 in exercise of powers conferred by section 13(1) of the CST Act, 1956.

9.7 During 2005-06, the following amendments have been carried out in the CST Act, 1956 and Rules made thereunder with a view to remove difficulties in implementation of the Act/ Rules:

(a) Vide Finance Act, 2005, amendments were carried out in sections 2, 5, 6 and 13 of the CST Act, 1956. Section 2(i) has been amended to provide that the term 'sales tax law' and 'general sales tax law', shall include 'value added tax law'. Section 5 has been amended to make submission of Form H mandatory for obtaining tax exemption in respect of exports referred to in section 5(3) and also to provide for tax exemption in respect of aviation turbine fuel purchased by a designated Indian carrier for its international flight. Section 6 has been amended to simplify the mechanism for providing tax exemption to diplomatic missions etc.

(b) The CST (Registration and Turnover) Rules, 1957 was also amended in order to carry out necessary consequential changes required due to the above-mentioned amendments carried out in the CST Act, 1956. Further, the Rules were also amended to provide for submission of Form C on quarterly basis instead of annual basis and also for submission of Form C and other declaration forms within 3 months from the end of the relevant period. This was done on the recommendation of the States, in order to facilitate close monitoring of inter-State transactions.

(c) The CST Act, 1956 has been amended through the CST (Amendment) Act, 2005 to streamline the functioning of the CST Appellate Authority constituted under provisions of Chapter VI of the Act to deal with appeals under section 6A read with section 9 of the Act.

Service Tax

9.8. The Service Sector has grown rapidly all over the world and India has not been an exception to this global trend. This Sector now accounts for nearly 52% of the country's Gross Domestic Product. Taxation of services in India was started through the Finance Act, 2004, through which tax was levied @5% on 3 specific services. As the power to levy tax on services is not specifically mentioned in either the Union List or the State List in the Seventh Schedule of the Constitution of India, the Government of India started taxation of services by virtue of Entry 97 of the Union List, i.e. 'any other matter not enumerated in List II or List III including any tax not mentioned in either of those List'. The proceeds of Service Tax are distributed between Centre and States as per Article 270 of the Constitution of India, on the recommendations of the Finance Commission. The scope of taxation has been gradually expanded over the years. Presently, the tax is being levied on 80 services and the rate of tax has gone up to 10% (plus education cess).

9.9. In view of the fact that the Service Tax is going to be a major source of tax revenues in future, it was considered appropriate to have a specific provision in the Constitution of India for levy, collection and distribution of Service Tax. Accordingly, the Constitution (Eighty Eighth) Amendment Act, 2003 relating to Service Tax was enacted. The new constitutional provisions require that a separate Central Legislation is enacted to lay down the principles for collection and appropriation of the Service Tax between the Govt. of India and the States. In this connection, the Union Finance Minister had convened a meeting of the Finance Ministers of all the States/ UTs, on 30 November 2004. However, in view of wide divergence of views amongst the States on this subject, further consultations are going on with the States to finalise the matter. Since the Central legislation is yet to be enacted, the provisions of the Constitution (Eighty Eighth) Amendment Act, 2003 have not yet been brought into force and the levy, collection and appropriation of Service Tax continues to be governed by the provisions existing prior to this amendment.

Additional Duties of Excise

9.10. The Additional Duties of Excise (ADE) in lieu of Sales Tax on Sugar, Tobacco and Textiles are being levied since 1957. The net proceeds of Additional Duties of Excise are distributed among the States in accordance with the principle recommended by the successive Finance Commissions. On the request of the States, an amendment in the Additional Duties of Excise (Goods of Special Importance) Act, was carried out, vide the Finance Act, 2003, to enable the States to charge Sales Tax/ VAT at a rate not exceeding 4% on Sugar, Textiles and Tobacco without affecting their share of Additional Duties of Excise. So far, this amendment has not been brought into force. The EC is deliberating upon the issue of timing and manner of levy of VAT on these items and further action in this regard will be taken on receiving the recommendations of the EC.

Indian Stamp Act, 1899

9.11 Under the Constitution of India, Stamp Duties (but not including rates of stamp duty) falls under Entry 44 of the Concurrent List. Thus, both the Centre and the States have the powers to legislate on this subject. The Central Government has powers to fix the rates of stamp duty in respect of 10 instruments specified in Entry 91 of the Union List, whereas States have the powers in respect of the remaining instruments by virtue of Entry 63 of the State List. The revenue from stamp duty is collected and appropriated by the State in which it is leviable. The Indian Stamp Act, 1899 lays down the Central law relating to Stamps.

9.12 During 2005-06, the following amendments have been carried out in the India Stamp Act, 1899 in order to remove certain difficulties in implementation of the Act:

(a) Vide Finance Act, 2005, a new section 8B has been inserted to provide that the corporatisation and demutualization schemes of recognized stock exchanges and related instruments shall not be liable to stamp duty. This has been done to facilitate the process of corporatisation and demutualization of stock exchanges.

(b) In order to rationalize the stamp duty in respect of commercial paper so that it applies uniformly, irrespective of the issuing entity or to whom these are issued, necessary order was issued under section 9 of the Indian Stamp Act, 1899.

10. ECONOMIC SECURITY CELL

The Prevention of Money-laundering Act, 2002 (PMLA) has come into force with effect from 1.7.2005. The PMLA seeks to combat money laundering in India with three main objectives – to prevent and control money laundering, to confiscate and seize the property obtained from laundered money, and to deal with any other issues connected with money laundering in India. The Rules under this Act have also been notified with effect from 1.7.2005. Powers have been conferred on the Director, Financial Intelligence Unit-India and the Director of Enforcement under the relevant provisions of the Act.

11. FINANCIAL INTELLIGENCE UNIT-INDIA (FIU-IND)

Background

The Government of India set up Financial Intelligence Unit-India (FIU-IND) vide orders dated 18th November, 2004 as the Central National Agency responsible for receiving, processing, analyzing and disseminating information relating to suspect financial transactions to enforcement / intelligence agencies.

Organization

FIU-IND as an independent body reporting directly to the Economic Intelligence Council (EIC) headed by the Finance Minister. It is a multi-disciplinary body with a sanctioned strength of 43 personnel with officers from different organizations namely Central Board of Director Taxes (CBDT), Central Board of Excise and Customs (CBEC), Reserve Bank of India (RBI), Securities and Exchange Board of India, Department of Legal Affairs and Intelligence agencies.

Functions of FIU-IND

The main function of FIU-IND is to receive cash and suspicious transactions reports, analyze these and as appropriate, disseminate actionable information to law enforcement and investigative agencies, including to foreign FIUs. The functions of FIU-IND are :

(i) Collection of Information : Act as a central reception point for receiving Cash Transaction Reports (CTRs) and Suspicious Transaction Reports (STRs) from the banking companies, financial institutions and intermediaries of securities market.

(ii) Analysis of Data: Analyze information to uncover patterns of transactions suggested suspicion of money laundering.

(iii) Information Sharing: Share information with regulatory agencies (RBI, SEBI etc.), intelligence/enforcement agencies and foreign FIUs.

(iv) Combating Money Laundering: Coordinate and strengthen collection and sharing of financial intelligence through an effective national, regional and global network to combat money laundering and related crimes.

(v) Research and Analysis: Monitor and identify strategic key areas on money laundering trends, typologies and developments.

Information to be furnished to FIU-IND

The Prevention of Money-laundering Act, 2002, casts an obligation on every banking company, financial institution and intermediary of securities market to furnish to FIU-IND information of –

(i) All cash transactions of the value of more than rupees ten lakh or its equivalent in foreign currency;

(ii) All series of cash transactions integrally connected to each other which have been valued below rupees ten lakh or its equivalent in foreign currency where such series of transactions have taken place within a month.

(iii) All cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine and where any forgery of a valuable security has taken place;

(iv) All suspicious transactions whether or not made in cash.

Performance and Achievements

Director (FIU-IND) was appointed in March 2005 and the core team of five officers joined in November 2005. During this short duration, FIU-IND has achieved following milestones:

(i) Physical infrastructure for FIU-IND has been set up in Hotel SAMRAT.

(ii) Basic technical infrastructure including computers, network etc. has been procured and made operational.

(iii) Formats for reporting have been finalized in consultation with RBI/Banks/SEBI.

(iv) Data structure for facilitating electronic reporting has been finalized.

(v) The content for FIU-IND website has been finalized. The website of FIU-IND would be launched in January 2006.

(vi) Actions have been initiated and some of these completed to ensure filing of reports by Banks/Financial Institutions/ Intermediaries from January, 2006.

12. INTEGRATED FINANCE DIVISION

The Integrated Finance Division consists of three Units dealing with finance and one Internal Work Study Unit (IWSU).

A. Integrated Finance Units

1. All expenditure, financial and budget proposals from Department of Revenue including its attached/Subordinate offices i.e. Central Bureau of Narcotics, Chief Controller of Factories, Central Economic Intelligence Bureau, Financial Intelligence Unit (FIU-IND), Enforcement Directorate, Customs, Excise & Service Tax Appellate Tribunal, Settlement Commission, Authority for Advance Ruling, Appellate Tribunal for Forfeited Property etc., as also the field offices of Central Board of Excise and Customs & Central Board of Direct Taxes were processed. Various expenditure and financial proposals in Finance Division were scrutinized and disposed of as per details below:-

(a) Proposals for creation of posts, construction/purchase/ hiring of offices, as well as residential accommodation for the field formations of Central Board of Excise & Customs and Central Board of Direct Taxes, Deptt. of Revenue and its attached offices.

(b) Proposals for deputation abroad of officers of the Deptt. and its field offices.

(c) Restructuring of the Department of Revenue and its field offices which include Enforcement Directorate, Central Bureau of Narcotics, redeployment of personnel in field formations of CBEC & CBDT.

(d) Proposals relating to Comprehensive Computerization of the Department of Revenue, its field formation including Customs and Central Excise formations and Customs & Income Tax field formations.

(e) Proposals relating to introduction of VAT in States which include computerization of States for VAT purposes and compensation to States for loss of revenue due to introduction of VAT.

(f) Proposals for providing infrastructure to the newly set up FIU-IND under P.M.L.A which include hiring of office space and computerization of the office.

(g) Proposals relating to grant-in-aid for National Institute of Public Finance and Policy and Central Revenue Sports Board.

(h) Proposals for Committee of Non-plan Expenditure (CNE)/ CCEA.

(i) Proposals pertaining to Customs & Central Excise Welfare Fund.

2. The expenditure budget of Department of Revenue-Demand No.42, Direct Taxes - Demand No.43 and Indirect Taxes-Demand No.44 was prepared and consolidated. The summarised details of all the grants are as follows: -

(Rs. In crores)

			2005-06 (B.E.)	2005-06 (R.E)
(i)	Demand No.42-	Revenue	5374.21	2830.54
	Department of Revenue	Capital	5.05	1.46
	Total		5379.26	2832.00
(ii)	Demand No.43-	Revenue	1166.00	1205.04
	Direct Taxes	Capital	84.00	22.44
	Total		1250.00	1227.48
(iii)	Demand No.44-	Revenue	1458.67	1449.16
	Indirect Taxes	Capital	188.73	17.84
	Total		1647.40	1467.00

3. The progress of expenditure under these three demands for grants was reviewed on monthly/quarterly basis. In addition, the allocation and monitoring of the budget relating to advances, viz, House Building Advance, Vehicle Advance, Computer Advance etc. was also done.

4. The integrated Finance Division has been watching the formulation of schemes of important expenditure proposals from their initial stage, and also watching the settlement of audit objections, inspections reports, draft audit paras and reports of PAC/Standing Committee. It has also been taking follow up action on Govt.'s economy instructions and implementation thereof and advising the Administrative Divisions on financial matters.

Mechanism put in place to measure development outcomes of major schems/programmes implemented through the Department:

5. It has been felt that there is a need for improving the quality of development programmers by making their conceptualization, design and implementation outcome oriented. Accordingly, the Govt. had decided to bring out the outcome budget for the Plan Scheme in 2005-06. It has further been decided to bring out the "Outcome Budget" for the Non-plan schemes also in 2006-07. There is no Plan scheme in the Department of Revenue. All budget provisions are for Non-Plan expenditure and, therefore, no outcome Budget was prepared in 2005-06 in respect of Grants under the Department of Revenue.

However, for preparation of Outcome Budget for the year 2006-07, the Department has already undertaken the exercise for formulation of Outcome Budget 2006-07.

Internal Work Study Unit

Being the nodal agency for dissemination of Government guidelines for bringing about improvement and efficiency, cleanliness and for effecting cost economy in the administration, the Internal Work Study Unit (IWSU) of the Department of Revenue, during the year 2005-2006, continued its efforts to improve the quality of administration in the organisations under the Department of Revenue. The Unit continued to liaise with the Department of AR&PG, SIU, D/o Expenditure and the National Archives of India on the following: -

(i) Compilation and consolidation of orders/instructions;

(ii) Review of rules & regulations and Manuals;

(iii) Review of periodical reports and returns;

(iv) Records management;

(v) Monitoring the progress of disposal of VIP and other pending cases;

(vi) Annual Inspection of the sections in the Department of Revenue.

(vii) Work-study of attached and subordinate offices of the Department of Revenue and implementation of SIU reports.

In addition to the above, the proposals for creation/ continuation of posts on cost recovery basis pertaining to field formations of CBEC were also scrutinized in the Unit.

The Unit has initiated special steps to expand the coverage of sections/branches of the Department of Revenue for the purpose of O & M inspections.

The progress of disposal of pending VIP references in the Department has been monitored in the Review Meetings held under the chairmanship of Secretary (Revenue) and Additional Secretary (Revenue) respectively with the officers concerned in the Department. The pendency position of VIP references is compiled and circulated to MOS (Revenue) and senior officers of the Department every fortnight. This has reduced the pendency of VIP cases considerably.

13. IMPLEMENTATION OF OFFICIAL LANGUAGE POLICY

The Department of Revenue has a full-fledged Official Language Division entrusted with the implementation of Official Language Act, 1963 and Rules made there-under. The Division is headed by a Director (O.L.) and operates through four Sections, each headed by an Assistant Director and supervised by two Deputy Directors. The Division deals with matters relating to implementation of Official Language Policy of the Union and takes follow up action on the orders and instructions issued by the Department of Official Language from time to time. Entire translation work of the Department of Revenue, from English to Hindi and vice-versa, is ensured by the O.L.Division.

The Department of Revenue is notified under Rule 10 (4) of the Official Language Rules, 1976. Twelve Sections have been specified under Rule 8 (4) of Official Language Rules for doing official work in Hindi.

Performance of the O.L. Division During the Year 2005-2006

(a) All the documents as per requirement under Section 3 (3) of the Official Language Act, 1963 were invariably issued bilingually.

(b) All Gazette notifications, Parliamentary Assurances and Replies to Parliament Questions were furnished bilingually.

(c) Notes and monthly summaries for the Cabinet were translated and made available bilingually; and

(d) A number of Double Tax Avoidance Agreements entered into with various different countries were translated into Hindi.

Hindi Salahkar Samiti and OLIC Meetings

The meetings of the Official Language Implementation Committee were held at regular intervals. In the meetings, the members discussed various steps required to be taken for effective implementation of the Official Language Policy of the Union. A representative of the Ministry of Finance also attends the Official Language Implementation Committee meetings of the Attached and Subordinate offices situated in Delhi.

Joint Hindi Advisory committee of the Department of Revenue and Department of Expenditure has been reconstituted

Inspection Related to Official Language

To accelerate the use of Hindi in the Department, inspections were carried out in the Subordinate Offices and various Sections of the Headquarter by the officers of Hindi Division during 2005-2006, and they were encouraged to improve the use of Hindi in their official work. Offices of the Department situated at Indore, Chandigrah, Aizawl, Pune, Deemapur, Srinagar and Dindigul were inspected by third Sub-Committee of Parliament Committee on Official Language during the year, and many valuable suggestions were given for maximum use of Official Language Hindi in day-to-day work.

Hindi Day/Hindi Pakhwara

On the occasion of Hindi Day, appeals were issued by the Home Minister, Finance Minister, Cabinet Secretary and Additional Secretary (Revenue) exhorting all officers/employees to do their maximum day-to-day work in Hindi.

Hindi Pakhwara was celebrated from 14th September 2005 to 28th September 2005. Various competitions like Hindi typing, Hindi noting & drafting, Essay writing, Hindi Slogan, Hindi Extempore Speech, Quiz competitions, Hindi dictation for group 'D' employees were organized. Those who secured first, second and third positions in these competitions were given cash prizes.

Hindi Schemes

Under the incentive scheme of the Department of Official Language, cash awards are given to the officials for doing noting/ drafting and other official work in Hindi. Besides this, a short term Rajbhasha Shield Yojna is being run in the Department of Revenue. The shield is given to the Section of the Department which does the maximum and best work in Hindi during a specified period. The officers and employees doing maximum work in Hindi during a specified period are awarded Rs.1000/- and Rs. 700/- as a first and second prize resepectively. A similar scheme is also being run for the Attached/Subordinate offices of the Department situated in Delhi.

To encourage creative & original book writing in Hindi, two incentive schemes have been run by the Department for reviewing and writing original books in Hindi on subjects like Income Tax, Central Excise, Customs and Narcotics. These schemes are open for all citizens of India. There are attractive prizes in each category (i.e. original book writing in Hindi and reviewing) for winners.

Training

During the year 2005-2006, three officers/employees who do not possess working knowledge of Hindi were nominated for training in Prabodh, Praveen and Pragya classes. Similarly 17 L.D.Cs and 21 Stenographers were nominated for training in Hindi typing and Hindi stenography respectively.

14. NATIONAL COMMITTEE FOR PROMOTION OF SOCIAL AND ECONOMIC WELFARE

Constituted in early 1992 under the Chairmanship of Justice P.N. Bhagwati former Chief Justice of India, the Committee recommends projects for promotion of sports, social and economic welfare and pollution control to the Central govt. for notification under Section 35AC of the Income Tax Act. The funding of the approved projects is through donations on which the donors are entitled to 100 percent tax exemption under the Income Tax Law.

National Committee is constituted for a term of three years and consists of 14 members with its chairman being former Chief Justice of India and other 13 members of public eminence hailing from various walks of life. Its secretariat office consists of a Secretary (National Committee), who is assisted by a Deputy Secretary (NC) and Section Officer.

Name of the Committee Members

1.	Mr. Justice S.P.Bharucha	(Chairman)	Mumbai
2.	Dr. Jatin De		Lucknow
3.	Dr. Tushar Kanjilal		Kolkata
4.	Ms. Atiya Habib Kidwai		New Delhi
5.	Dr. Nandini Azad		New Delhi
6.	Mrs. Veena Singh		New Delhi
7.	Ms. Enakshi Ganguly Thukral		New Delhi
8.	Dr. Kanchana Kamalanathan		Krishnagiri (TN)
9.	Major H.P.S. Ahluwalia		New Delhi
10.	Dr. Sukhadeo Thorat		New Delhi
11.	Shri Asad R. Rahmani		Mumbai
12.	Shri Michael Ferriera		Mumbai
13.	Shri Pawan Kumar Sharma		Guwahati

Performance/achievement during the last year.

The total number of application received during last year, i.e. 2004 is 409. The National Committee for promotion of Soocial and Economic Welfare has, since, held its six business meeting from December, 2004 to November, 2005 and considered/ disposed a total of 547 cases out of which 144 cases were approved at a total project's cost of RS. 1178.13 crores.

15. APPELLATE TRIBUNAL FOR FORFEITED PROPERTY

The Appellate Tribunal for Forfeited Property (ATFT) was constituted under the Smugglers and Foreign Exchange Manipulators (Forfeiture of Property), Act, 1976 (SAFEMA). It started functioning with effect from. 03.01.1977. Subsequently, the Tribunal was also constituted as the Appellate Tribunal under the Narcotic Drugs and Psychotropic Substances Act, 1985 (NDPS Act) after its amendment in the year 1989.

The Tribunal comprises a Chairman (who is, or has been, a Judge of the High Court or Supreme Court) and two Members (who are generally of the level of Additional Secretary to the Government of India). It is situated at New Delhi without any Benches elsewhere. The Tribunal, however, holds camp sittings at different places in the country under the provisions of the above Acts in order to provide justice at the doorstep of the public.

The Tribunal hears appeals and allied matters filed against the forfeiture, or other orders passed by the officers designated as Competent Authorities for forfeiture of illegally acquired properties of the persons convicted under the Customs Act, 1962, or NDPS Act, 1985, or detained under COFEPOSA, 1974, or PITNDPS Act, 1988, and also the properties held by such persons in the names of their relatives and associates, and for seizure or freezing of illegally acquired property of the persons covered under NDPS Act.

The appeals and petitions are decided by the Benches consisting of at least two Members and constituted by the Chairman. At present the Tribunal is presided over by Shri Justice A.K. Srivatava, who is a former judge of High Courts of Allahabad and Delhi.

During the period from 01.4.2005 to 31.12.2005, 33 appeals and 47 miscellaneous petitions under SAFEMA, and 31 appeals and 30 miscellaneous petitions under NDPS Act were filed. During this period, 94 appeals and miscellaneous petitions were disposed of.

16. CUSTOMS, EXCISE AND SERVICE TAX APPELLATE TRIBUNAL

The Customs, Excise & Service Tax, Appellate Tribunal was created to provide an independent forum to hear the appeals against orders passed by the authorities of Customs, Excise and Service Tax department under the Customs Act 1962, Central Excise Act 1944 and Gold Control Act 1968. The Gold Control Act has since been repealed. At present, Service Tax appeals have been included. The Tribunal also has jurisdiction to hear the appeals against the orders passed by the designated authorities of Ministry of Commerce in the Anti-Dumping matters. Headquarters as well as Principal Bench of the Tribunal is situated at Delhi, and other regional benches of the Tribunal are situated at Mumbai, Kolkata, Chennai and Bangalore. In addition, there is a proposal to establish a new bench at Ahmedabad (Gujarat). Each bench consists of a Judicial Member and a Technical Member. To expedite the disposal of small cases financial stake involving upto Rs.10 lakhs, a single member bench has also been constituted. The Tribunal is the appellate authority in the cases of classification and valuation. An appeal against the Tribunal's order lies to the Hon'ble Supreme Court.

As a result of amendment by the Finance Act 1995, the distinction between special benches and other benches was done away with, and as of now, any bench of two or more Members is competent to hear all the matters, except anti-dumping matters, which were earlier being heard at Delhi.

Sanctioned strength of Hon'ble President is one, Vice President is 2 and of the Members is 18. At present, 5 posts of Members are lying vacant.

In spite of various constrains including vacancies of Members, the disposal of appeals has increased in comparison to last year. In the current year (2005-2006) within 8 months i.e upto Nov.05, the Tribunal has disposed of 12,335 appeals.

A comparative statement showing the institution and disposal of appeals is being given below.

Year	Institution of Appeals	Disposal of Appeals
2004-2005	18626	15429
April 05 to Nov'05	11181	12335

The Tribunal is a quasi-judicial appellate body to hear the appeals in the matters of Customs, Excise, Service Tax and anti-dumping and there is no bench of the Tribunal situated in the north-east regions etc. Hence, on the point the Tribunal has no information.

17. INCOME TAX SETTLEMENT COMMISSION

The Settlement Commission was constituted with effect from.01.04.1976 under Chapter XIX-A of the Income Tax Act, 1961 and Chapter V-A of Wealth Tax Act, 1957, for settlement of income tax and wealth tax cases.

There are four Benches of the Settlement Commission as under:

1. Principal Bench at New Delhi.
2. Additional Bench at Mumbai.
3. Additional Bench at Kolkata.
4. Additional Bench at Chennai.

The Principal Bench consists of one Chairman and two of Members. The Additional Benches consist of one Vice-Chairman and two Members each. The Chairman is the presiding officer of the Principal Bench and the Vice-Chairmen are the presiding officers of their respect Benches.

Each settlement application involves computation of income/ wealth for a number of assessment years. The statistics of pendency/disposal for the period 2004-2005 and 2005-2006 (upto January 2006) (consolidated for all Benches) and the immediately preceding years are given in the Annexure below. A majority of the cases settled, pertained to search and seizure operations and involved complex investigations. In the normal course, these cases would have involved protracted litigation, possibly up to the Supreme Court level.

Annex

STATEMENT OF CONSOLIDATED RECEIPT AND DISPOSALOF APPLICATIONS BY THE SETTLEMENT COMMISSION (IT & WT)

Financial Year	No. of cases pending for admission at the beginning of financial year, i.e., 1st April	No. of admitted cases pending at the beginning of financial year, i.e. 1st April	Total no. of cases pending at the beginning of financial year, i.e., 1st April	No. of applications received during the year	Addition due to High Court or Settlement Commission order	Total for disposal [2(c)+3]	Cases admitted 245D(1)/ 22D(1)	Disposal during the year- Cases Rejected	Disposal during the year- Admitted cases disposed of	Total pendency reduced [5(b)+5(c)]	Balance pending at the end of financial year - pending for admission	Balance pending at the end of financial year - Admitted cases pending	Total
1.	2(a).	2(b).	2(c).	3.	3(a).	4.	5(a).	5(b).	5(c).	6.	7(a).	7(b).	7(c).
2004-05	707	2119	2826	434	...	3260	317	159	214	373	665	2222	2887
2005-06 (upto Jan.2005)	707	2119	2826	350	-	3176	215	129	149	278	713	2185	2898

18. CUSTOMS & CENTRAL EXCISE SETTLEMENT COMMISSION

Function & Working

The Central Government have constituted the Customs & Central Excise Settlement Commission under section 32 of the Central Excise Act 1944 vide notification No.40/99-CX (NT) dated 09.06.99 and 41/99-CX (NT). The Commission consists of a Principal Bench presided over by the Chairman at New Delhi and 3 Additional Benches at Chennai, Mumbai and Kolkata presided over by Vice Chairman with 2 Members in each Bench. The present sanctioned strength of the Commission is 116 Officers and staff – 30 each for New Delhi and Mumbai and 28 each for Chennai and Kolkata. The Commission functions in the Department of Revenue as an Attached Office of the Ministry of Finance.

The basic objective in setting up of the Settlement Commission is to expedite payments of Customs and Excise duties involved in disputes, by avoiding costly and time consuming litigation process and to give an opportunity for tax payers who may have evaded payment of duty to come clean. Settlement Commission is therefore set up as an independent body, manned by experienced tax officers of “integrity and outstanding ability”, capable of inspiring confidence in the Trade and Industry and entrusted with the responsibility of defining and safeguarding “Revenue Interest.” Settlement Commission has thus given an opportunity for providing a channel for expeditious settlement of tax disputes under the Customs & Central Excise laws in a spirit of conciliation, rather than prolonging them through adversarial attitude. Any assessee, importer or exporter desirous of settling a tax dispute by the Settlement Commission has to invoke the jurisdiction of the Settlement Commission voluntarily, making full and true disclosure of the duty liability accepted by him and in turn for the same, the Settlement Commission is vested with the powers to grant him immunity either fully or partially from penalty, interest and fine under the provisions of Customs & Central Excise Acts and immunity from prosecution under the provisions of above Acts and Central Acts.

Highlights of the Performance and achievements during 2005-06(upto Nov.05)

Number of Applications Received during 2005-06 (up to Nov.05)	Number of Applications Disposed of during 2005-06 (up to Nov. 05)	Duty Settled during 2005-06 (up to Nov. 05) *(Rs.in crores)*
886	934 (includes the applications received during previous years but disposed during current year)	93.47

Performance/achievements during 2004-05:

Year	Number of Applications received	Number of Applications disposed	Duty Settled *(Rs. in crores)*
1999-2000	3	1	
2000-01	328	174	21.28
2001-02	559	216	26.64
2002-03	656	470	187.51
2003-04	753	572	114.04
2004-05	1273	1349	181.25
2005-06(up to Nov.)	886	934	93.47
Total	**4458**	**3715**	**624.19**

19. AUTHORITY FOR ADVANCE RULINGS (INCOME TAX)

The Authority for Advance Ruling (Income Tax) is a quasi judicial body under the Ministry of Finance, which is chaired by a retired Supreme Court Judge. It was established in 1993 as per the provisions of Chapter XIX B of the Income Tax Act 1961 inserted by Finance Act 1993 w.e.f. 01.6.1993. The Authority gives binding rulings on the taxation issues raised by Foreign

Companies and non-resident Indians, relating to completed, ongoing or proposed transactions. It also gives rulings in the case of PSU's subject to necessary clearance.

The Authority has been quite active since its inception and much in demand by the Industry. The Authority has been mainly dealing with the interpretation of various provisions of the IT Act including Double Taxation Avoidance Agreement and other taxation issues like Permanent Establishment, Business connection, e-commerce and investments by FIIs and FDIs. The feedback from the industry is that with increasing foreign investment in India, it has become absolutely necessary for the investors to ascertain in advance, tax implications of their proposed transactions and ventures. It is a matter of pride that some of the recent Advance Rulings have been favourably discussed in the past as well as very recently in International and National Conferences such as the IFA Conference in Vienna and in Delhi (held in the month of January, 2006) and BMA International Tax Conferenece in Mumbai (held in December,2005).

Organisational Set-Up

The Authority, headed by a retired judge of the Supreme Court of India and having two members of the rank of Additional Secretary to the Govt. of India – one each from Indian Revenue Service & Indian Legal service, is a quasi judicial body having powers of a Civil Court. The Authority is assisted by a secretariat which is headed by a Commissioner of Income-Tax designated as Secretary of the Authority.

Functions

Non-residents or specified categories of residents, desirous of obtaining an advance ruling relating to Income tax can make an application in the prescribed form stating the facts relating to the transaction and the question on which the advance ruling is sought. After examining the application and obtaining the report of the designated Commissioner of Income-tax and the relevant records wherever available, the Authority passes an order in writing either admitting or rejecting the application. But no application can be rejected without giving the applicant an opportunity of being heard. The ruling is binding on the tax authorities and also on the applicant. No appeal is provided against the ruling. Important rulings involving interpretation of tax laws and the Double Taxation Avoidance Agreements between India and foreign countries are published in tax journals.

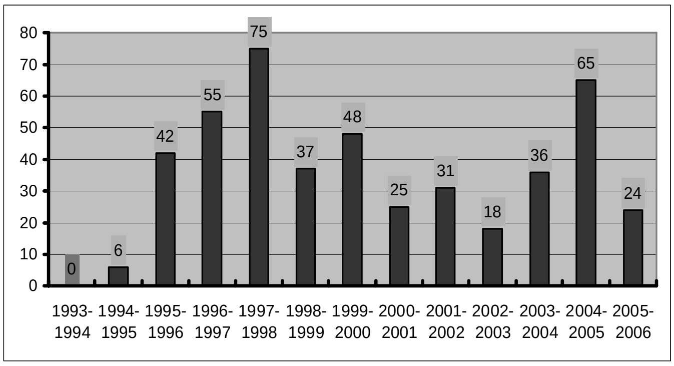
Performance

The Authority has so far pronounced rulings in 462 cases, on intricate questions of law and facts which have facilitated the non-residents in their investment ventures in India. Many of the questions coming up before the Authority are such where, generally, decisions of High Courts or the Supreme Court are not available. Although the rulings are binding only in the case of applicant, coming from a high powered authority, the rulings have a persuasive value, and their applicability in any other case on same or similar facts cannot be denied. This also helps achieving uniformity in application of the legal provisions and ensuring equality before law. Owing to the uniqueness of these features, the setting up of the Authority for Advance Rulings in India has been welcomed by every one as a step in the right direction.

Statistical information about the performance of the Authority since inception till 31.01.2006 is given in the following table:

Financial Year	Opening balance	Applications received	Total	Decision	C/f
1993-94	Nil	05	05	Nil	05
1994-95	05	15	20	06	14
1995-96	14	66	80	42	38
1996-97	38	66	104	55	49
1997-98	49	69	118	75	43
1998-99	43	47	90	37	53
1999-2000	53	31	84	48	36
2000-2001	36	39	75	25	50
2001-2002	50	55	105	31	74
2002-2003	74	16	90	18	72
2003-2004	72	26	98	36	62
2004-2005	62	23	85	65	20
2005-2006 (Upto 31.01.06)	20	19	39	24	15

The bar chart giving the disposal data is as below :-



Besides the above, a large number of applications U/s 245R(2) have also been heard and orders passed.

Increasing the Awareness about the Authority in the Commerce and Industry Sectors and NRI's

A number of active and fruitful efforts have been made by this Authority for widening the awareness of the facility available to Foreign Investors through AAR. To this extent a number of very effective presentations have been given under the directions of Hon. Chairman AAR by Secretary (AAR) during the last one year.

(a) In the International Taxation Conference in December, 2005 by Bombay Management Association and OECD a session was exclusively addressed to the issues and cases before the AAR.

(b) A session on Transfer Pricing by IFA at the prestigious Indo-US Conference in Delhi wherein number of Cases of AAR discussed and Honorable Chairman presided as guest of honor.

(c) At Pravasi Bhartiya Diwas Conference in January, 2006, the brochure highlighting the functioning and the facilities rendered by the Authority for Advance Rulings was distributed.

(d) On 30th January,2006 the official website of the Authority for Advance Rulings i.e. www.aar.gov.in was inaugurated. This website is very interactive and it contains all the details regarding the functioning of the AAR. All the important rulings pronounced by the AAR has been given on this website.

(e) Advertisements were given in the leading Newspapers of India to widen the awareness among the Non-residents as well as residents of India about the AAR.

Representation of the Authority in International Tax Conferences Relating To DTAA's, Advance Ruling etc.

The system of Advance Ruling in some form or the other is in vogue in at- least 57 countries of the world. These countries include USA, UK, France, Germany, Japan, Sweden, Australia & Canada apart from India. We have double taxation avoidance agreements with most of these countries. The Authority has also been receiving applications for Advance Rulings from the applicants from many of these countries.

Implication of Recent Rulings of the Authority

In many countries the advance ruling system is used explicitly as a tool to attract new investments. A potential investor weighing different investment locations may be lured to a country that will provide certainty, in advance, about reasonable tax treatment.

The Authority for Advance Rulings in two recent Rulings in the case of Morgan Stanley (AAR/611/2003) and in the case of Fidelity Advisor (AAR/566/2002) held that sharebrokers, custodians of shares and bankers of these non-resident companies, though based in India,cannot be treated as the companies' Permanent Establishment in India and therefore income earned from their business in trading at the Stock Exchange in derivatives & shares was not taxable in India.

The recent trend of investment in the Indian Share Market by the Foreign Institutional Investors and the Foreign Direct Investments is an indication of the increasing significance of these rulings for the tax department as well as for the foreign investors.

The issue of e-commerce came up in the case of Dun & Bradstreet wherein it was ruled that the server of the computer being operated by the applicant did not constitute the permanent establishment in India and therefore, the earnings of this company from supplying BIRs was not taxable in India.

The ruling in the case of Abdul Razak A. Meman, highlights the problem of Double Non-Taxation. It is noted that although Tax Treaties were concluded to avoid double taxation and to prevent fiscal evasion, they often led to cases of double non taxation. In this case, the applicant, an individual Indian national, residing in UAE was liable to Capital Gains Tax in India on the transfer, effected in India, of moveable assets in the nature of shares, debentures and other securities. It was held that factors like acquisition of moveable assets in the nature of debentures and other securities prior coming into the effect of the Treaty between India and UAE or the applicant becoming non-resident, or whether the applicant acquired the moveable assets after becoming a non-resident or from out of non-repatriable funds in India, was irrelevant for purposes of taxation in capital gains.

In the case of Rotem Company, Korea and Mitsubishi Company, Japan, it was held that "fee for technical services" cannot be taxed as 'business profits".

Audit Objections

There is no major para in the Revenue Audit Report in respect of this Authority. The minor objections were of technical and remedial nature and the necessary remedial actions have already been taken.

20. AUTHORITY FOR ADVANCE RULINGS (CENTRAL EXCISE, CUSTOMS & SERVICE TAX)

Functions and Working

To facilitate foreign investment into the country, a number of steps have been taken by Government of India in recent period. Setting up an Authority for Advance Rulings (Central Excise, Customs & Service Tax) to give binding Rulings in advance, on Customs, Central excise and Service tax matters pertaining to an investment venture in India is one such measure. Legal provisions relating to Advance Rulings have been introduced in the respective statutes through the Finance Acts of 1999, 2003 and 2005. The scheme of Advance Rulings has assumed a greater and special significance in the context of greater emphasis on FDI.

The Authority for Advance Rulings, (Central Excise, Customs & Service Tax), is a high level quasi-judicial body comprising a retired Judge of the Supreme Court of India and two Members (of Additional Secretary rank) having wide experience in technical and legal matters. At present, Hon'ble Justice Mr S.S.M. Quadri is the Chairman and Mr. Somnath Pal (Indian Revenue Service) and Dr. B.A. Agarwal, Additional Secretary, Ministry of Law are the Members in the Authority. The office of the Authority is located on 4th Floor, Hotel Samrat, Kautilya Marg, Chanakyapuri, New Delhi- 110 021.

Under the scheme of Advance Rulings, the following categories of investors are eligible to apply for an advance ruling:

(i) a non-resident investor setting up a joint venture in India in collaboration with a non-resident or a resident;

(ii) a resident setting up a joint venture in India in collaboration with a non- Resident, a wholly owned subsidiary Indian company, of which the holding company is a foreign company, who or which, as the case may be, proposes to undertake any business activity in India;

(iii) a joint venture in India;

(iv) a resident falling within any such class or category of persons, as the Central Government may, by notification in the Official Gazette, specify in this behalf.*.

* Under this provision a resident proposing to import goods from the Republic of Singapore under the Comprehensive Economic Cooperation Agreement between the Republic of India and Republic of Singapore has been notified as an applicant vide Notification No. 69/2005-Custom (NT) dt.29.7.05.

The rulings can be sought in respect of the following: -

(i) Classification of goods under the Customs Tariff Act, 1975, and Central Excise Tariff Act, 1985, and of taxable services under Chapter V of the Finance Act, 1994(Service Tax);

(ii) Principles of valuation under the Customs Act, 1962, and the Central Excise Act, 1944;

(iii) Applicability of notifications issued under the Customs Act, 1962, Customs Tariff Act, 1975, Central Excise Act, 1944 and Central Excise Tariff Act, 1985 having a bearing on the rate of duty and of notifications issued under Chapter V of Finance Act, 1994;

(iv) Admissibility of input-tax credit under Central Excise law (CENVAT);

(v) Admissibility of credit of Service Tax under Chapter VA of the Finance Act, 1994;

(vi) Valuation of taxable services for charging Service Tax under the Finance Act, 1994;

(vii) Determination of Origin of goods in terms of the Rules notified under the Customs Tariff Act, 1975 and matter relating thereto;

(viii) Import of goods from Singapore under CECA.

The process of obtaining an advance ruling is simple, inexpensive and transparent. Only Rs. 2500/- have to be deposited through a Demand Draft with each application. The process of obtaining a ruling is highly expeditious, as the Authority is statutorily required to deliver the ruling within 90 days of receipt of an application. Rulings are pronounced after providing an opportunity of being heard by the Authority and in pursuance of other accepted judicial norms. Advance Rulings pronounced by the Authority are binding on departmental officers engaged in assessment of goods and services and on the applicant, thus ruling out the possibilities of subsequent disputes and litigation. A ruling given in respect of an applicant is binding only in that applicant's case. Furthermore, Advance Rulings are not appealable either by the department or by the applicant, under the Customs, Central Excise or Service tax law. An Advance Ruling remains valid unless there is a change in law or the facts on which the ruling was pronounced.

Advance rulings would indicate, in advance, the duty liability in respect of an 'activity' viz. 'import' or 'export' under the Customs Act, 'production' or 'manufacture' of goods under the Central Excise Act and 'taxable services' under the Service Tax law, proposed to be undertaken / provided by an applicant. (Service tax law is administered by Central Excise officers).

Performance and Achievements during the year

Prompt disposal of the applications in accordance with the statutory provisions relating to advance rulings is the USP of the Authority. 52 applications seeking advance rulings were received during the period 1.4.05 to 15.12.05. Total number of applications to be decided upon by the Authority was 59 inclusive of 7 pending applications from the previous period. As on date pendency is of 14 applications.

Advance Rulings have been issued in 27 applications relating to Custom law; one relating to Central Excise law; and two relating to Service tax law. Final orders were issued in two cases - one each relating to Customs and Central Excise Law. In 13 applications relating to Custom law, hearings have been completed, in which rulings have been reserved.

Authority's website - www.cbec.gov.in/cae/aar.htm is regularly updated. New additions to the web site are the following : -

(a) Amendments to the provisions relating to the advance rulings contained in the Finance Act, 2005;

(b) All the latest Advance Rulings and Orders issued by the Authority have also duly up –loaded on the website.

(c) Twelve manuals as prescribed under Right to Information Act, related to the Authority, were duly prepared and up-loaded well before the time limit laid down for the purpose.

(d) Appointment of the PIO under the said Act was also duly notified and displayed on the website as well as on the Notice Boards of the Authority

(e) A compendium of the laws administered by the Authority and compilation of all advance Ruling and Orders has also been prepared by the Authority

Performance and Achievements upto the last year

The Authority became functional in the financial year 2002-03. The Customs (Advance Rulings) Rules, 2002 and Central Excise (Advance Rulings) Rules, 2002 were notified vide Notification Nos 55/2002-Cus (N.T.) and 28/2002-Central Excise (N.T.) both dated 23.8.2002. The Service Tax (Advance Rulings) Rules were notified vide Notification No. 17/2003-S.Tax (N.T.) dated 23.7.03. The procedure to regulate the functioning of the Authority was laid down vide Authority for Advance Rulings (Procedural) Rules, 2003 issued vide Notification No. 1/2003-AAR dated 21.03.2003. Consequent upon the expansion in the scope of advance rulings and the experience gained, these Rules were streamlined and superseded by the Authority for Advance Rulings (Customs, Central Excise and Service Tax) Procedure Regulations, 2005 issued vide Notification. No. 1/2005 dated 07.01.2005.

The first application seeking advance ruling was received on 20.11.2002. During the period 20.11.2002 to 31.03 2005, 23 applications were received, out of which rulings were pronounced in 6 cases (5 relating to Customs and 1 relating to Central Excise). During this period, final orders were also issued in 10 cases (4 relating to Customs and 3 each relating to Central Excise and Service Tax). As on 31.03.2005, 7 applications were pending.

Brochures containing the basic and essential information about the Authority were got printed and distributed/circulated amongst the prominent Chambers of trade & industry within the country, Indian Missions abroad and the Embassies and High Commissions located within the country with a view to spread awareness about this new organization which is entrusted with the responsibility of implementing a totally new concept under the Customs, Central Excise and Service tax law.

Meetings and Seminars are held with the Chambers of Commerce & Industry in all the metropolitan cities in India, besides industrial/commercial cities like Pune, Ahemdabad, Bangalore & Allahabad.

21. IMPLEMENTATION OF THE RIGHT TO INFORMATION ACT, 2005

The Right to Information Act, 2005 (No. 2 of 2005) was passed by both the Houses of Parliament and received the assent of the President on 15th June, 2005 and has come into force on 12th October, 2005 (i.e., 120th day of its enactment). The Act extends to the whole of India except the State of Jammu & Kashmir.

In order to promote openness, transparency and accountability in administration, the RTI Act has been enacted, which enables a citizen of India to secure access to information under the control of public authorities. The term 'public authority', as defined in the Act means any authority or body or institution of self-government established or constituted by or under the Constitution. It casts an obligation on public authorities to grant access to information and to publish certain categories of information within 120 days of its enactment.

The information can be obtained by means of , (i) inspection, (ii) certified copies of any records; (iii) diskettes, floppies or in any other mode or printouts where such information is stored in a computer or in any other device. The term 'information'; defined in Section 2(f), means any material in any form including records, documents, memos, e-mail, opinions, advices, press releases, circulars, orders, log books, contracts, reports, papers, samples, models, data material in any electronic form and information relating to any private body which can be accessed by a public authority under any other law for the time being in force.

Public Authorities

The Act lays down the machinery for grant of access to information. It is the responsibility of the Public Authorities to designate Public Information Officers and Assistant Public Information Officers within 100 days of its enactment. These officers are responsible to deal with requests for information from the citizens and also to assist them in seeking information.

There is a provision under the Act for transfer of a request by a Public Authority to another Public Authority who is dealing with the subject matter of the request.

Certain categories of information as mentioned in sub-section (1) of Section 4 of the Act are to be published by the Public Authorities within 120 days of the enactment. This includes, among others, information relating to the particulars of organization, functions and duties; the powers and duties of officers and employees; the procedures followed in the decision making process; a statement of the categories of documents held by an organization; the allocated budget to each organization; etc.

Categories of information exempt under sections 8 and 9 of the RTI Act

Certain categories of information have been exempted from disclosure under sections 8 & 9 of the Act. These, inter-alia, include information likely to affect the security of the State; strategic, scientific or economic interest of the State; detection and investigation of offences; and trade or commercial secrets and personal information which has no relationship with public activity and could cause unwarranted invasion of the privacy of any person are also exempt from disclosure. However, exemptions provided are not absolute and withholding of information must be balanced against disclosure in the public interest.

Time limit prescribed for furnishing information

A time limit of 30 days has been prescribed for compliance with requests for information under the RTI Act not exceeding a total of forty-five days from the date of filing thereof, as the case may be, for reasons to be recorded in writing.

Prescription of fees

Vide Notification dated 16th September, 2005, the Department of Personnel & Training has prescribed different rates of fees for furnishing different categories of information under the Right to Information (Regulation of Fee & Cost) Rules, 2005, which were further amended by notification dated 27th October, 2005.

A request for obtaining information shall be accompanied by an application fee of Rs.10/- in cash / cheque / demand draft payable to the Account Officer of the Public Authority and ,

(i) Rs.2/- for each page (in A-4 / A-3 size paper) of information, or

(ii) Actual cost price of a copy in larger size paper, or

(iii) Actual cost for samples / models, or

(iv) For inspection of records, no fee for the first hour; and a fee of Rs 5/- for each subsequent hour, or

(v) Rs.50/- for information provided in diskette / floppy, or

(vi) Rs.2/- per page of photocopy, etc.

Central Public Information Officers (CPIOs)

Section 5 of the Act lays down designation of Public Information Officers. The Central Public Information Officers, on receipt of a request under Section 6 shall, as expeditiously as possible, and in any case within the specified time-limit, either provide the information on payment of prescribed fee or reject the request for any of the reasons specified in sections 8 and 9.

Appeal under the RTI Act

Any person, who does not receive a decision within the specified time or is aggrieved by the decision of the Central Public Information Officer, may, prefer an appeal to such officer who is senior in rank to the Central Public Information Officer. The second appeal shall lie to Central Information Commission. The Central Information Commission is empowered to impose a penalty of two hundred and fifty rupees each day. However, the total amount of such penalty shall not exceed twenty-five thousand rupees if the Central Information Commission is of the opinion that the CPIO has, without any reasonable cause, refused to receive the application for information or has not furnished the information within the specified time or denied the request for information due to malafide intention or knowingly given incorrect, incomplete or misleading information or destroyed information or obstructed in any manner in furnishing the information

Exemption provided to certain organizations from the RTI Act

Intelligence and security agencies specified in Schedule to the Act have been exempted from its purview. Section 24 of the Act read with the Second Schedule reveals that the Act shall not apply to following organizations under the Department of Revenue –

(i) Directorate of Revenue Intelligence

(ii) Central Economic Intelligence Bureau

(iii) Directorate of Enforcement

(iv) Financial Intelligence Unit, India

Though the aforesaid four organizations are exempt under the Act, yet these organizations will have to provide information pertaining to the allegations of corruption and human rights violations.

Actions Taken

I. Designation of the Central Public Information Officers

Revenue Headquarters

The following officers have since been designated as the Central Public Information Officers:-

S.No.	Name, Designation & Address
1	Ms. Anuja Sarangi, Dir(TC/Coord)
2	Shri L.K. Gupta, Director (ST)
3	Shri Mukul Singhal, Director (Hqrs)
4	Shri K.K. Sabarwal, Director (Fin./DT)
5	Smt. Madhu Sharma, Dir.(OL)
6	Shri P.V. Subba Rao, DS (NC)
7	Shri Sanjai Singh, DFA(Fin./EC)
8	Shri Rajiv Rai, DS (Admn.)
9	Shri K.S. Sharma, DS(PITNDPS)
10	Shri S.K. Singh, DS (Parl. & R&I)
11	Shri R.L. Meena, STO(RA)

All the subordinate offices working under the administrative control of Revenue HQ. have designated CPIOs/CAPIOs. Joint Secretary (Revenue), Ministry of Finance (Department of Revenue has been designated as Appellate Authority for the purpose of hearing first appeals under section 19(1) of the Right to Information Act, 2005.

Sale Tax Section:

9.17. Necessary action has been taken under section 4 of the RTI Act, 2005 to publish the information/ manuals on various aspects of functioning of the Sales Tax Section. These Manuals have been posted on the website of the Ministry of Finance to facilitate easy access to the general public. The information is being updated from time to time. Further, all the records in the Section are being properly maintained, so that as and when any information is sought, the same can be readily furnished. Upto 31 December 2005, no applications seeking information under RTI Act, 2005 have been received in the Sales Tax Section.

(ii) Central Board of Direct Taxes

As regards the CBDT, the required set up under the Act has been established. 21 CPIO's have been designated in CBDT HQRS and appellate authorities have also been designated. Receipt & Issue Section of the Department of Revenue has been designated to receive the application under RTI Act and transmit the same to the CPIO's immediately.

All the necessary steps have been taken in the CBDT as well as field formations to implement the RTI Act.

(iii) Central Board of Excise & Customs

The following officers have since been designated as the Central Public Information Officer for the Headquarters office of the Central Board of Excise & Customs :-

Sl.No.	Name (S/Shri)	Designation
1.	M.M. Parthiban	Director (Customs)
2	Mohan Kumar Singh	Director (ICD)
3	Ms. Priya V.K. Singh	Deputy Secretary (Anti-Smuggling)
4	Dr. M. Subramanyan	Deputy Secretary (Drawback)
5	Abhai Kumar Srivastav	Deputy Secretary (CX-I/4))
6	Satish K. Agrawal	Director (CX.3/9)
7	Ms. Hemambika R. Priya	Director (CX.6/8)
8	Ravinder Saroop	Director (Tax Research Unit)
9	Ms. Sungita Sharma	Director (Review)
10	Jagdish Singh	OSD(Legal)
11	Mahesh Rustagi	OSD(PAC)
12	Ashok Chakrabarti	Deputy Secretary (Ad.II)
13	S.P. Singh	Deputy Secretary (Ad.IIA/B)
14	R.S. Meena	Director (Ad-IV/Ad-IVA/Ad-VII(EC))
15	V.K.Sharma	Deputy Secretary (Ad.V)

CPIO's and CAPIO's have also been designated in the field formations and the Directorates under the Central Board of Excise & Customs.

II. Preparation of Information under section 4(1)(b) of the RTI Act

The CBDT, CBEC and Revenue Headquarters have prepared the categories of information prescribed under sub-section (1) of section 4 to the RTI Act and uploaded them on their official websites.

III. Proposals to Exempt Certain Organisations from the Act

The Department of Personnel & Training was requested to exempt the following organisations from the purview of the Right to Information Act, 2005 –

(i) Financial Intelligence Unit, India

(ii) Directorate General of Central Excise Intelligence

(iii) Directorates General of Income Tax (Investigations)

The Department of Personnel & Training has issued a notification and has included 'Financial Intelligence Unit, India' in the Second Schedule to the Right to Information Act, 2005.

Regarding inclusion of the Directorates General of Income Tax (Investigation) in the Second Schedule, the DOP&T has opined that exemptions contained in sub-section 8(1) (g) and (h) are adequate to protect the interests of the Directorates General of Income Tax (Investigation) and in view of this , it may not be necessary to include the Directorates in the Second Schedule. This Department has, however, requested DOP&T to reconsider this proposal. Regarding Directorate General of Central Excise Intelligence, response from DOP&T is still awaited.

IV. Designation of Receipt Officer in RTI Matters for Department of Revenue

Section Officer (R&I) has been designated as Receipt Officer to receive all requests from persons seeking information from the Department of Revenue under the Right to Information Act, 2005. He will be responsible for receiving such requests, have them registered and stamped in red ink and send them to the concerned CPIOs the same day as far possible, for further action. He will maintain a separate Receipt Register for this purpose

V. Designation of Despatch Officer in RTI Matters for Department of Revenue

Section Officer (R&I-D) has been designated as Despatch Officer. He will be responsible for immediate dispatch of all letters pertaining to RTI matters received from the designated Central Public Information Officers (CPIOs) to the addressees by Speed Post the same day as far as possible after keeping a proper record of despatch. He will also maintain a Despatch Register for this purpose.

VI. Training Manual

For implementation of the Right to Information Act, 2005 in Income Tax Department, the Directorate of Training, National Academy of Direct Taxes, Nagpur has brought out a Training Manual. A few workshops were also conducted for training the CPIOs / CAPIOs as well as awareness programmes for all officers and staff on general provisions and record management.

VII. Internal Procedure

An Internal Procedure has been devised to be followed in Department of Revenue (Headquarters) for dealing with application/request for disclosure of information under the RTI Act, 2005. Similarly, procedure for receipt, tracking the movement and processing of requests for information received under the Right to Information Act, 2005 has been prepared for the field formations and the Directorates under the Central Board of Excise & Customs and CBDT.

Various formats have been prepared for implementation of the Right to Information Act, 2005.

22. ACTION TAKEN TO IMPLEMENT THE FLAGSHIP NCMP PROGRAMMES AND OTHER IMPORTANT POLICY INITIATIVES ANNOUNCED THROUGH FINANCE MINISTER'S SPEECH, 2005-06

1. Department of Revenue (Headquarters)

Policy Initiatives announced under NCMP

Under NCMP, it was stated that "The UPA government is pledged to the early introduction of VAT after all the necessary technical and administrative homework as been completed, particularly on issues like the integration of service sector taxation and compensation to states."

Necessary action has already been taken on this policy announcement. State VAT has already been implemented w.e.f. 01 April, 2005. 25 States/ UTs have already implemented VAT. Since it is a State subject, the Central Government has played the role of a facilitator. The Central Government is committed to continue playing this role to carry further this process of tax reforms.

Policy Initiatives announced in Budget Speech, 2005-06

Para-89 of the Budget Speech mentions about rationalization of stamp duties on the issue of commercial paper, in a manner that it applies uniformly in all cases. This has already been implemented through issue of a notification under section 9 of the Indian Stamp Act, 1899.

Para-95 of the Budget Speech mentions about implementation of State VAT. It is mentioned that the Central Government has promised its full support and has also agreed to compensate the States according to an agreed formula in the event of any revenue loss. The necessary action in this regard has already been taken. State VAT has been implemented w.e.f. 01 April 2005. The Central Government has also implemented the mechanism for providing compensation to States for revenue loss, if any, on account of introduction of VAT. The compensation is being released accordingly to the States.

2. Central Board of Direct Taxes

Establishment of LTUs in India

Following international practice, the Hon'ble Finance Minister in his Budget Speech 2005-06 announced the proposal to establish LTUs in the country which would act as a single window facilitation centre for all large entities paying excise duty, corporate tax/ income tax and service tax.

The proposal has since been worked upon in the Government and wide ranging discussions have also been held with the trade and industry bodies/ associations. It has been decided that the LTUs would be set up in a phased manner and would be established initially in five large cities of the country viz. Bangalore, Chennai, Delhi, Kolkata and Mumbai. All large tax payer (single PAN base entities) who have paid excise duty of Rs. 5 cr. or more through PLA in the financial year 2004-05 and who are assessed to income tax in any of these five cities are welcome to join the scheme. The LTUs are expected to be set up in the beginning of financial year 2006-07.

Features of the proposed LTUs

The LTUs will be self-contained units acting as a single window clearance for all matters relating to central excise, income tax/ corporate tax and service tax. Entities would be able to file their excise return, income tax/ corporate tax return and service tax return at a common place, i.e. the LTU and for all practical purposes will be assessed to all these taxes in the LTU only.

The LTUs will be manned by officers from the Income Tax Department and Customs and Central Excise Department especially selected and trained for the purpose. Each LTU will be headed by an officer of the rank of Chief Commissioner. LTUs will be set up as modern offices having ISO 9001-2000 certification with state-of-the-art facilities for taxpayers along with computerized facilities for electronic filing of returns, etc.

Facilities under the LTUs

Taxpayers would be provided with the following facilities in the LTUs:

- Facilities for e-filing and e-payment of all taxes would be available round the clock;
- Taxpayers would be able to file all the three returns at a single point without any fresh registration;

- Quick and time bound decision-making system;
- Quick grievance redressal;
- Refunds would be processed promptly;
- Trade notices to be issued centrally for all LTUs;
- Uniformity in assessment practices;
- Speedy, efficient and hassle-free service in all matters;
- Existing facilities like export clearance, factory stuffing of cargo and warehousing facilities would continue to be provided by the field offices in proximity to the production units as at present.

Finance Act, 2005

* With a view to significantly lower the tax burden on the income-tax payers, the basic exemption limit has been increased to Rs. 1 lakh, for women to Rs. 1.35 lakh and for Senior Citizens to Rs. 1.85 lakhs. Further the income slabs for taxation have been widened as follows:

Rs 1 lakh to Rs 1.50 lakhs	-10%;
Rs 1.50 lakhs to Rs. 2.50 lakhs	-20%;
more than 2.50 lakhs	-30%.

  Surcharge @ 10% shall be charged in the case of individuals, HUF, Association of Persons and Body of Individuals on income exceeding Rs 10 lakhs.

  Keeping in view the higher exemption limits and wider tax slabs, the standard deduction against salary income has been withdrawn.

* The corporate tax rate (for domestic companies) has been reduced from 35%to 30% so as to reduce ex-ante cost of capital and provide larger internal accruals for modernisation and expansion. Further, the tax rate for firms has been reduced from 35% to 30%. Surcharge at the rate of 10% has been levied on domestic companies and firms.
* With a view to provide a homogenous treatment to the taxation of financial savings, the following measures have been taken:
  * All existing rebates under Section 88, 88B and 88C have been withdrawn.
  * It has been provided that investment in financial instruments hitherto eligible for rebate under section 88 shall now be eligible for deduction from income under new Section 80C with an overall cap of Rs 1 lakh. Further, sectoral caps on house loan repayment, tuition fees, contribution to provident fund payment etc., have been removed.
* Deduction provided in respect of interest on certain securities etc. under section 80L has been withdrawn.
* Fringe benefit tax has been introduced to tax the privileges, facilities or amenities provided or deemed to have been by the employer to the employees. The fringe benefit tax shall be levied at the rate of 30% on the value of such fringe benefits, and shall be paid by the employer.
* With a view to widen the tax base the following measures have been taken:

  (a) Section 139 has been amended so as to provide for Compulsory filing of return by firms, whether they have income or loss.

  (b) Compulsory filing of return has also been provided for in cases where the Gross total income before allowing deductions under Chapter VI-A and exemption under sections 10A, 10B, or 10BA exceeds the maximum amount not chargeable to tax.

  (c) Expenditure exceeding Rs. 50,000/- on electricity consumption in any previous year have been included as a criteria for filing return under the 1/6 Scheme. Subscribership to a Cellular phone has been excluded from the criteria for filing return under the 1/6 scheme.

* With a view to encourage the pursuit of higher studies, it has been provided under section 80E that the entire amount of interest on loan taken for higher studies shall be allowed as a deduction for eight years.
* With a view to promote industrial development in the State of Jammu & Kashmir, the time limit for setting up of industry in J&K for the purposes of claiming deduction under Section 80-IB(4) has been extended to 31.03.2007.
* The following rationalisation and simplification measures have been taken:

  (a) It has been provided that credit for MAT paid under section 115JB shall be provided against the tax liability that arises in subsequent years.

  (b) Sub clause (ii) of clause (4) of section 10 has been amended so as to provide that the interest on a Non-Resident (External) Account shall continue to be exempt.

  (c) Sub clause (iv) of clause (15) of section 10 has been amended so as to provide that the interest on foreign currency deposit shall continue to be exempt from tax.

  (d) Revival of exemption on lease rentals paid while acquiring an aircraft or an aircraft engine for the lease agreements entered into before 1-4-2006.

  (e) Section 115A has been amended so as to provide that income earned by way of royalty and fees for technical services in case of a non-resident in respect of agreement made on or after 1.6.2005 shall be charged to tax @ 10%.

  (f) Section 80-IA has been amended so as to provide that authorities constituted under the Central or State Act and operating, developing and maintaining an infrastructure facility shall be eligible for 100% deduction of profits for a period of 10 years under the said section.

  (g) The rates of depreciation have been rationalised keeping in view the reduced tax rates, low inflation in the price of capital goods, enhanced internal accruals etc. Among other things the rate of depreciation on Plant & Machinery has been reduced to 15%.

  (h) Additional depreciation on new Plant & Machinery acquired after 1-4-2005 has been increased to 20%.

  (i) Section 35DDA has been amended so as to provide that the entire expenditure incurred for making payments by an employer on implementing a VRS scheme is allowed as deduction even if such expenditure is incurred over a period of time.

  (j) Dredgers to come under the definition of qualifying ship for Tonnage Tax Scheme

  (k) Clause (5) of section 43 has been amended so as to provide trading in derivatives on a recognised stock exchange shall not be treated as a speculative transaction

  (l) TDS/TCS Demat provisions have been deferred by one year and now shall be applicable for taxes deducted/collected on or after 1-4-2006

  (m) In order to mitigate the difficulties of small truck operators, sub-section (3) of section 194C has been amended exempting truck operators owning upto two trucks from TDS.

* A new section 72AA has been inserted so as to provide that where a banking company has amalgamated with a banking institution in accordance with a scheme sanctioned by the Central Government, carry forward of the accumulated loss and unabsorbed depreciation of the amalgamating banking company shall be allowed to the amalgamated banking institution

* It has been provided that the income from transfer of a Zero coupon bond, not being stock–in-trade shall be treated as capital gains.

* Section 153B has been amended so as to rationalise the time limit for search assessment in case of other person. It has been provided that in case of the other person the time limit for making assessment in respect of the six years preceding the assessment year relevant to the previous year in which search u/s 132 is conducted or requisition u/s 132A is made, and in respect of previous year in which search is conducted or requisition u/s 132A is made, shall be two years from the end of the financial year in which the last of the authorizations for search u/s 132 or for requisition u/s 132A was executed or one year from the end of the financial year in which books of account , documents or assets seized or requisitioned are handed over to the Assessing Officer having jurisdiction over such other person. Further, a new proviso to sub-section (1) of section 153C has been inserted providing that in the case of such other person, the reference to date on initiation of search u/s 132 or making of requisition u/s 132A, in the second proviso to section 153A shall be construed as a reference to the date of receiving the books of account or documents or assets seized or requisitioned by the Assessing officer having jurisdiction over such other person.

* With a view to promote scientific research and development the following measures have been taken up:

  (a) Sec 35(2AB) has been amended thereby extending the time limit for allowing deduction of 150% of expenditure on in-house research by companies engaged in business of drugs, biotechnology, telecommunication equipment, computers, pharmaceuticals etc. upto 31.3.2007.

  (b) Sub-section (8A) of section 80-IB has been amended so as to provide that 100% deduction shall be allowed to a company carrying on scientific research and development where such company is approved by the prescribed authority before 1.4.2007.

* Two new measures have been taken with a view to check tax-evasion:

  (a) A new levy namely Banking Cash Transaction Tax has been levied@ 0.1% on the value of the following taxable banking transactions:

    (i) withdrawal of cash from an account (other than savings account) with a scheduled bank on any single day exceeding Rs.25,000 by an individual or HUF and Rs.1,00,000 by other persons;

    (ii) receipt of cash on encashment of term deposits with a scheduled bank on any single day exceeding Rs.25,000 by an individual or HUF and Rs.1,00,000 by other persons.

  (b) a new section 206A has been inserted so as to provide for furnishing of quarterly returns by banks, co-operative societies and public companies (engaged primarily in the business of providing long term finance for construction or purchase of houses in India), in respect of deposits where the interest paid is less than Rs. 5,000/-.

* As a measure to mobilize additional resources, the rates for Securities Transaction Tax increased by 33.33% as follows:-

  i. @ 0.1% on the value of transactions of delivery-based purchase of an equity share in a company or a unit of an equity oriented fund, entered in a recognised stock exchange, to be paid by the buyer,

  (ii) @ 0.1% on the value of transactions of delivery-based sale of an equity share in a company or a unit of an equity oriented fund, entered in a recognised stock exchange, to be paid by the seller,

  (iii) @ 0.02% on the value of transactions of non-delivery based sale of an equity share in a company or a unit of an equity oriented fund, entered in a recognised stock exchange to be paid by the seller,

  (iv) @ 0.0133%, on the value of transactions of derivatives being option or future, entered in a recognised stock exchange,

  (v) @ 0.2% on the value of transactions of sale of units of an equity-oriented fund to the mutual fund.

Action Taken on the Budget 2005-06 Announcements

(I) With a view to switch over to the EET system of taxation, the F.M. had announced that a Committee would be set up to work out the roadmap for the same. Pursuant to this, an EET Committee was constituted vide order dated 5.8.2005. The committee has submitted its report on 28.11.2005, which is under consideration of the Government.

(II) In Para 177 of the Budget Speech, the F.M. had announced that the National Common Minimum Program (NCMP) requires the Government to introduce special schemes to unearth black money and assets. In line of the same, the following two new anti tax-evasion measures have been taken with a view to unearth black money:

(a) a new levy namely Banking Cash Transaction Tax has been levied@ 0.1% on the value of the following taxable banking transactions:

  (i) withdrawal of cash from an account (other than savings account) with a scheduled bank on any single day exceeding Rs.25,000 by an individual or HUF and Rs.1,00,000 by other persons;

  (ii) receipt of cash on encashment of term deposits with a scheduled bank on any single day exceeding Rs.25,000 by an individual or HUF and Rs.1,00,000 by other persons.

  The BCTT Rules, 2005 have been notified vide notification S.O.No. 77(E) dated 30.5.2005.

(b) a new section 206A has been inserted so as to provide for furnishing of quarterly returns by banks, co-operative societies and public companies (engaged primarily in the business of providing long term finance for construction or purchase of houses in India), in respect of deposits where the interest paid is less than Rs. 5,000/-.

The government has issued notification S.O.No. 896(E) dated 28.6.2005 for the purpose of filing quarterly return of non-deduction of tax at source u/s 206A of the I.T. Act, 1961.

(III) In consonance with the announcement made by the F.M. an Expert Group has been constituted to prepare the draft for a revised and simplified Income-tax Bill.

23. E-GOVERNANCE ACTIVITIES

A. Revenue Headquarters

The Department of Revenue has been provided with 110 computers with necessary operating systems and application software in order to achieve the objective of IT automation plan for the Secretariat of Department of Revenue. The specific objectives of the computerization of the Department are to provide tools for effective policy making, create an efficient and transparent administration through reduced processing time and to create an efficient monitoring and supervisory mechanism. Efforts are on to equip all staff with computers and network the computers so as to shift gradually to an online system of working.

Under the National e-Governance Plan (NEGP) launched by the Department of Information Technology, the Department of Revenue is coordinating a Mission Mode Project (MMP) on 'Commercial Taxes', which is a significant e-Governance initiative in the field of State taxes. The Department is in the process of finalizing a broad scheme for this Project in consultation with the States.

The Lucknow office of Competent Authority (SAFEM (FOP) Act & NDPS Act) launched a website (www.candpslko.gov.in) on 8.11.05. The website would make the public become aware of the role, importance and activities of Competent Authorities appointed under the said two Acts. Computer training imparted to the members of staff and the office has commenced data management by way of computerization.

B. Central Board of Direct Taxes
'Vision 2010': E-delivery of Taxpayer Services

1. Vision 2010

In the vision document 2010 the Department has identified Quality tax payer service as a key area. In this connection, the main objective of the department has been defined as "To enable taxpayers to meet their normal tax obligations in a convenient manner without visiting Income Tax Office."

Following strategy has been laid out to achieve this objective:

To set up facilities so that taxpayers can do the following from their homes/offices, (including through internet):

(i) Obtain all direct tax related information including forms etc.
(ii) File PAN application and obtain PAN on demand.
(iii) Prepare and file returns of income/TDS.
(iv) Pay taxes and track status thereof.
(v) Get refunds by credit to their bank accounts.
(vi) Reply all assessment related queries except where personal attendance is necessary.
(vii) File petitions and track status thereof.

2. The computerisation program in Income Tax Department has three major components-

(1) e-delivery of taxpayer services
(2) Augmentation of departmental computer infrastructure
(3) Setting up Tax Information Network (TIN)

3. e-delivery of taxpayer services

3.1 Dissemination of tax information on web:

(i) Department's website www.incometaxindia.gov.in provides exhaustive information on direct tax laws, rules, procedures, FAQs etc as also down loading of all forms, challans and return preparation software etc.

(ii) Number of visitors to the website exceeded 1.30 crore in March, 2005. Average number of visitors is about 4 lakh per day.

3.2 PAN related services:

(i) Over 63 lakh PANs were allotted in F.Y. 2004-05 i.e. over 5 lakh per month. Average waiting time has come down to below 15 days. Total number of PANs allotted upto 31.3.05 was 3.82 crore. It has increased to 4.18 crore as on 20.12.05. Year-wise allotment of PANs is as under:

Year	2000-01	2001-02	2002-03	2003-04	2004-05
Allotment	23,00,218	26,78,764	58,74,623	44,60,038	63,73,028

(ii) Following PAN related services have been made available on internet:

(a) Online filing of PAN applications
(b) "Tatkal" allotment of PAN
(c) Web tracking of status of PAN applications
(d) PAN grievance handling with Call centre 'Aayakar Sampark Kendra' (ASK) {0124-2438000}

3.3 Online preparation of returns of income: Free software for preparation of returns of income by taxpayers not having business income has been provided on the website.

3.4 e-filing of returns of income: The functionality for electronic filing of returns of income through intermediaries, and direct internet filing by eligible taxpayers under digital signature became operational for taxpayers assessed at the 60 stations on the network.

3.5 e-payment of tax:

(i) Payment of taxes through Internet: Facility for payment of direct taxes through internet have been set up. Details are available at website of TIN i.e. www.tin-nsdl.com .

(ii) Blank challans with preprinted PAN: Facility to download preprinted Challans with name and PAN/TAN has been provided on the website http://incometaxindiaefiling.gov.in

(iii) View of tax paid in banks: Facility to verify payment of tax through internet is available on the website http://tin-nsdl.com

3.6 Faster processing of returns and issue of refunds: Over 2 crore returns have been processed on computers during F.Y. 2004-05. Relevant statistics are as under-

Financial	Returns processed on networked computers	Returns processed on stand alone	No. of returns processed on computers computers	Refund cheques issued (in lakh)
2001-02	10,58,288	4,25,584	14,83,872	26.72
2002-03	92,85,705	86,41,337	1,79,27,042	39.87
2003-04	1,06,99,279	96,94,397	2,03,93,676	56.66
2004-05	1,23,63549	80,18,443	2,03,81,992	39.77

3.7 Electronic credit of refunds: Facility for electronic credit of refunds to the bank account of taxpayers has been introduced in 12 cities for salaried taxpayers in March 2004. This is proposed to be increased to more cities in consultation with RBI and SBI.

3.8 Electronic filing of TDS returns: Particulars of e-TDS returns received till 3.12.05 are as under -

TDS Returns for Financial Year	e-TDS returns received	Transactions included in e-TDS returns
2002-03	1,28,421	4,58,04,279
2003-04	3,25,157	7,80,03,841
2004-05	4,95,971	10,25,65,943
2005-06(Ist Quarter)	2,47, 792	2,01,43,887
2005-06(2nd Quarter)	2,11,200	2,32,44,563

3.9 Computer Assisted Selection of Cases for Scrutiny: A system for risk based Computer Assisted Selection of Cases for Scrutiny has been introduced during F.Y. 2004-05 at 60 stations on network. This will eliminate discretion-based selection of cases for scrutiny. It is proposed to extend the system to all cities once income tax network is extended to all cities by June 2006.

4. Augmentation of departmental computer infrastructure

Following projects are under implementation:

4.1 Setting up Single National Database – Migration of existing application software from 2-tier to 3-tier and Consolidation of 36 regional databases into single national database is under progress. This will enable following functionalities-

a. Any time anywhere computing
b. Jurisdiction free filing / processing;
c. All India data matching;
d. Centralized MIS reporting

4.2 National Data Centre with appropriate Business Continuity and Disaster Recovery site is being set up to house the single national Database. Tender process has been initiated. Benchmarking suite is under preparation. Expected date for completion is 30.06.06.

4.3 All India virtual private network (VPN) is being set up to link 742 income tax offices in 510 cities across the country. Tender process has been completed and implementation of networking has started. Scheduled date for completion is 31.01.06. This will link 12000 departmental users to the single National database in a highly secure network with an assured up time of 99%.

4.4 Supply of PCs – Over 8800 PCs have been provided to all Officers and staff.

5. Setting up Tax Information Network

5.1 Tax Information Network (TIN) has been set up outside the Department. This is being hosted by National Securities Depository Limited (NSDL) as a repository of information relating to –

(i) Tax payments – coming online from banks under Online Tax Accounting System (OLTAS)

(ii) Tax deductions coming from TDS returns – filed electronically as well as filed on paper and digitized at TIN.

(iii) High value financial transactions coming through Annual Information Returns. These have started being filed in electronic format with TIN using PAN as the key identifier from August 2005. Information available in these returns will be used for widening of tax base, computerized selection of cases for scrutiny on intelligent criteria, and deepening of tax base.

5.2 Online Tax Accounting System (OLTAS): On line tax accounting system has become functional from 01.06.2004. Under this nearly 12,900 branches of 34 designated banks entersed to collect direct taxes are transmitting information of tax payments online to the Department through TIN on T+3 basis. The procedure for payment has been simplified. The number of challans has been reduced from 7 to 3. Blank bar coded challans with preprinted PAN and name have been sent to Companies, firms and TDS deductors for facilitating use of PAN.

5.3 Computerisation of TDS/TCS functions: TIN is providing facility for e- filing of TDS/TCS returns and digitization of paper TDS returns. The information in respect of deductees available in TDS returns can also be used for widening of taxbase using PAN as the key identifier. In Phase–II facilities for dematerialisation of TDS certificate are being set up through TIN.

5.4 Annual Information Returns: Scheme for filing of Annual Information Returns of high value financial transactions by main nerve enters of financial activities such as Credit Card companies, banks, Registrar of immoveable properties, mutual funds etc. has been operationalised from this year. These returns are to be filed on electronic medium with TIN giving party-wise break up of specified high value financial transactions made by different parties, with PAN as the key identifier. Total 1833 AIRs have been filed up to 11.12.05. Their break up is as under

Nature of Transaction	Number of transactions	Amount Reported (Rs.)
Cash deposits in bank > Rs. 10 lakh	443,541	41,100 crore
Credit card payments > Rs. 2 lakh	362 ,660	5,833 crore
Receipts > Rs. 2 lakh in mutual funds	611,232	765,696 crore
Receipts > Rs. 5 lakh for bonds/debentures	22,868	89,806 crore
Receipts > Rs. 1 lakh for shares in companies	138, 277	72,498 crore
Purchase of immoveable property > Rs. 30 lakh	6,391	4,997 crore
Sale of immoveable property > Rs. 30 lakh	8,655	4,114 crore
Purchase of RBI bonds> Rs. 5 lakh	73,638	161,133 crore
Total	**1,667,262**	**1,145,177 crore**

Information available in these returns will be used for widening of tax base, computerized selection of cases for scrutiny on intelligent criteria, and deepening of tax base

C. Central Board of Excise & Customs

The projects already implemented and those under implementation by the CBEC are in line with the proposed vision of the National e-Governance plan. Most of the projects undertaken by CBEC have targeted the business users such as importers and exporters, manufacturers and the service providers, and in these initiatives, the department is guided by the following principles :

* Citizen-centric delivery of services through “single window” interface.
* Providing services on an “anytime, anywhere” basis.
* Ushering in Transparency and Accountability.
* Simplification of procedures.
* Reduction in Transaction Costs.
* Minimization of manual interface.
* Encouraging voluntary compliance.
* Synergy between various Tax Systems.

Efforts are being made to make the Department’s services available over the internet and through various service centers. Integrated service delivery is also being attempted by integrating processes, cutting across diverse field formations under CBEC and also by integrating with partner agencies such as Banks, Airlines, Custodians etc.

Details of Completed Projects:

S.No.	Activity	Brief Account
1.	Online filing of Central Excise returns	To enable the taxpayer to file their Central Excise returns with CBEC over the Internet.
2.	Online filing of Service Tax returns	To enable the taxpayer to file their Service Tax returns over the Internet
3.	Electronic credit of Drawback	To enable the taxpayer to receive electronic credit of the amount due directly into his account with the designated bank.
4.	Dissemination of information relating to the indirect taxes through web .	To enable the taxpayers to obtain up to date information relating to Customs, Central Excise & Service Tax laws, forms, etc through internet.
5.	IEC status with ICEGATE	To enable the taxpayer to ascertain on the Internet whether his IEC (Importer/ Exporter Code) issued by DGFT has been sent to ICEGATE.

6.	Online registration with ICEGATE	To enable the taxpayer to register online for transacting electronically with the department.
7.	Online filing of Customs documents	To enable taxpayers to file their Customs documents over the Internet. During 2004-2005, 94% of the import documents and 92% of the export documentation were processed electronically at the automated locations.
8.	Web Tracking of status	To enable the taxpayers to of Customs documents ascertain status of their Customs documents.
9.	Helpline facility for	To provide a Helpline for ICEGATE transactions problems faced by taxpayers in transacting with the department through ICEGATE.

The details of on-going Projects in brief are as under:

S.No.	Activity	Brief Account
1.	Digital Signature Certificates in Customs Clearance	CBEC has acquired a five years licence to act as Certifying Authority for implementation of Digital Signature Certificates in Customs clearance to ensure authenticity of transactions over Internet. The process of Issuing digital certificates has started.
2.	Automation of Central Excise and Service Tax(ACES)	The project aims at developing a workflow application to automate the entire business process relating to Central Excise and Service tax that includes registration, filing and processing of returns, claims, intimation etc., filing and processing of excise related export documents, automated monitoring of dispute resolution, audit etc.. The work relating to development of software is in progress.
3.	Augmentation of Computer infrastructure within the department	To set up an All India Wide Area Network linking 20,000 users in 550 buildings in 245 cities to the National data centre, Data Replication and DR site. This would link CBEC officers with the national data centre and disaster recovery site. The project is expected to be completed by 2006-2007. To provide computing , data storage, system security infrastructure , central Facilities management and related functionalities to all departmental and external users accessing the CBEC system. The project is expected to be completed by 2006-2007. To provide PCs / terminals to all CBEC users with access to the central computing facility in a secured manner. The project is expected to be completed by 2006-2007. Setting up of Central Data view for Analysis & Reporting (CEDVAR) – CBEC's data Warehouse would give the senior management in CBEC and the ministry a consolidated national perspective of all indirect tax data (using PAN based identifiers) for informed policy making & decision support; To provide a single source of clean and consistent indirect tax data for all purposes. To provide Web-enabled access to all users with customizing capability built-in. Bringing in data from new applications like APIS & Courier Automation and external sources. The project is expected to be completed by 2006-2007.

As against 23 automated Customs locations during 2003-04 with 87% of the import and export declarations filed and processed in EDI system, this year the processing has increased to 92% covering 34 major Customs locations. However, EDI coverage of the remaining Customs locations will now be undertaken under the Consolidation Project. Presently this project is under execution and is being supervised by the Empowered Committee set up in the Ministry of Finance.

The projects of CBEC have also helped in making the process of assessment of goods transparent due to the following features :-

(a) Document status information through use of Tele-enquiry system, Touch Screen Kiosks, SMS, display of Document status on TV monitors and on local web sites leading to greater transparency in the monitoring of shipments by trade.

(b) Transparency engendered through Document Tracking, Status Query and Help Desks at ICEGATE.

(c) Information dissemination through departmental Website: www.cbec.gov.in and www.icegate.gov.in.

Further, the following major initiatives are also being undertaken for upgradation of systems and moving towards e-mode :

(i) Introduction of Self Assessment based on Risk Management System and Post Audit in Customs clearance to promote faster clearance of cargo, to facilitate low risk importers/exporters and to provide effective enforcement in high-risk cases. The system is under pilot implementation at Sahar Air Cargo Mumbai and after successful completion of the pilot will be rolled out to other automated Customs locations; and

(ii) Under the Consolidation Project, approved by the CCEA in February 2005, an additional 35 locations are proposed to be brought under automation. The implementation of the Consolidation Project, is being monitored by the Empowered Committee constituted by the Ministry of Finance, IIT Delhi has been appointed as the consultant.

The project's deliverables are as under:

(a) Consolidation of the existing and proposed IT infrastructure.

(b) Comprehensive networking linking all offices of CBEC

(c) Development of Web based application for Customs, Central Excise and Service Tax covering all major activities of CBEC.

(d) Setting up of Data Ware House for meeting information and analytic needs of the CBEC and Ministry of Finance.

(e) Setting up of intranet service for CBEC and its officers to enable communication and interchange of information.

Necessary steps are being taken to sensitize the staff as well as the members of Trade and Industry to the automation programme. The steps include :

(a) Publicity by the Directorate of Publicity and Public Relation;

(b) Issue of detailed Public Notices, Trade Notices by the Commissionerate

(c) Offices giving details of procedures for the benefit of the trade and industry on e-governance; and

(d) Workshops and seminars by the Department as well as the Trade Organizations to sensitize the members of Trade and Industry regarding automation of procedures in Customs, Central Excise and Service Tax.

D. Authority for Advance Rulings (Central Excise, Customs & Service Tax)

The office of Authority for Advance Rulings is fully equipped with computers and internet facility. Full details relating to the Authority's functioning are available on the web site-www.cbec.gov.in/cae/aar.htm . Trade, industry and applicants have access to all the information about this Authority on the internet. This Authority has an interface with the trade and industry and applicants in as much as all queries received on e-mail are replied via e-mail.

E. Customs & Central Excise Settlement Commission

The information in respect of Customs & Central Excise Settlement Commission is readily available in the web site of Ministry of Finance www finmin. nic. in.

F. Customs, Excise and Service Tax Appellate Tribunal

The website of the Tribunal was launched in Aug. 2003 and now cause lists and roster of all benches, including regional benches, are being displayed on it. Full computerization of the Tribunal is under way.

G. Chief Controller of Factories

The CCF Organisation is equipped with computers and is connected through internet and have individual officer-wise e-mail addresses to facilitate e-governance. Further, during the year 2003-04, the opium sampling was handled by way of computers and challans were sent on e-mail to District Opium Officers. During current upgradation, a larger computer network is envisaged at the two production works, particularly for HRD and labour management issues.

H. Authority for Advance Rulings (Income Tax)

The office of the Authority is equipped with Computers, e-mail, Internet facility etc. The PCs have been provided up to Section Officer level. All the staff (except Group "D" Staff) have reasonable background of computer operation. Computer is being used for preparation of pay bills, house keeping records, Library Books etc. E-mail is used for communication with applicants, Revenue Department and various organizations in Commerce & Industry. On 30th January, 2006, the official website of the AAR was launched, which contains all the details regarding the functioning, facilities and the rulings pronounced by the AAR.

I. Directorate of Enforcement:

In the Headquarters office of the Directorate of Enforcement at New Delhi, there are three LANs(Local Area Network) which have been developed by NIC (National Infomatics centre). While one is a Windows NT based LAN comprising of 11 clients provided to all senior officers of Headquarters, the other two are UNIX based LANs (one operations from Computer Room, Hqrs.) comprising of 16 terminals each located at different locations. Details for the above mentioned LANs are as below: -

UNIX based LAN

The application software for this LAN has been developed by NIC to enable feeding of data into the Central Database from any of the terminals. Further software for word processing in English and Hindi is available on this LAN. Besides we have three different database also developed by NIC as indicated here below: -

I. All investigations and intelligences files (cases) are in this database and the same are regularly being fed to make this Database updated.

II. Personal information Database of all employees working in Delhi of the Enforcement Directorate. The Database is also used for salaries and personal claim of the staff etc.

III. Database developed by NIC for CEIB (Central Economic Intelligence Bureau) used for feeding the particulars of all the cases booked by Enforcement Directorate involving more that Rs.10, 00,000/- or equivalent in foreign currency.

WINDOWS – NT Based LAN

Apart from the above LAN, we have in our office 11 Personal Computers provided to all the senior officers. The system has also been inter-connected through a Windows-NT LAN and a Proxy Server of this Network is kept in the Computer Room. This system is loaded with MS Office profession and is being used for all official work. Since Internet facility is available on all these systems through the RF link provided by the NIC, the facility of E-mail is being availed for official communication.

All Zonal offices and sub-zonal offices have been equipped with the Computers. These computers are being used for word processing, data and also helping in Inter-zonal and Inter-departmental communications through E-mail. The Internet is being utilized for development of information and intelligence in our office. The computers have proved very useful and effective in the preparation of budget and statistical data in all the offices of Enforcement Directorate.

Proposed Computerization and Data base Development

The Directorate has submitted a comprehensive computerization plan to Ministry inter alia containing proposal to set up Main Computer Centre for collecting, analyzing and disseminating data/intelligence. The central server will also have connectivity with data base network of other law enforcement and regulatory agencies like RBI, Narcotics control Bureau, CEIB, CPV (MEA), SEBI, Customs, Income Tax, State Police Departments, CBI, Polnet, NCRB & FIU.

It is also proposed to fully computerize and network through Local Area Network (LAN) of all Zonal/Sub-zonal offices and connect them to the Central Server (Hqrs.) through Wide Area Network (WAN) through NIC/NICSI.

Website Development

The Enforcement Directorate has a web page under the head "Preventive Agencies fighting economic offences" under the main web site of Department. of Revenue, Ministry of Finance which includes contact information of all the offices of Enforcement Directorate as well as the detailed information about the Foreign Exchange Management Act, 1999 along with the rules and regulations made there under. This web page has been developed for us by the NIC. The website of the Directorate is proposed to be developed shortly to incorporate details regarding FEMA along with rules/regulations and orders as well as regarding PMLA along with rules made thereunder.

24. GRIEVANCES REDRESSAL MACHINERY

Revenue Headquarters

Director (Coordination) has been nominated as the Grievance Officer for redressal of public/staff grievances pertaining to the Revenue Headquarters. This information has been widely circulated among all officers/sections in the Department and to Department of Administrative Reforms & Public Grievances. The grievances relating to SCs/STs and Other Backward Classes are dealt with on priority. The Complaint Cell for Women has been reconstituted and has been attending to expeditious redressal of the grievances of the women employees relating to sexual harassment in workplaces. Efforts are made to attend to all grievances received on priority.

Central Board of Direct Taxes

The Income-tax Department has a 3-tier Grievance redressal machinery as below:

(i) Central Grievance Cell under Chairman, Central Board of Direct Taxes. This cell functions directly under an officer of the rank of a Director to the Government of India.

(ii) Regional Grievance Cell under each Chief Commissioner/ Director General of Income-tax. In places like Kolkata and Mumbai where there is more than one Chief Commissioner, the Regional Grievance Cell functions under the Chief Commissioner-II.

(iii) Where no Chief Commissioner or Director General is posted, Grievance Cell functions under the Commissioner of Income Tax

Grievance petitions may be made on plain paper application to the Grievance Cell functioning under the concerned Commissioner or by directly approaching the concerned officer to redress the grievances, mentioning the grievance in brief to the Grievance Cell functioning under the concerned Commissioner .

If the grievance is not redressed even after a month of making the application as indicated the applicant may address the grievance to the Regional Grievance Cell functioning under the concerned Chief Commissioner of Income Tax. Nodal Officers have been placed in charge of these Cells. Besides, there are facilitation Counters to receive grievance petitions and to assist the public

If the grievance is not redressed by the Regional Grievance Cell within 2 months, an application may be sent to the Central Grievance Cell functioning under the Chairman, Central Board of Direct Taxes . The Central Grievance Cell is handled by the Director (Hqrs), CBDT.

The applicant should give his name, address and PA Number so that the Grievance Cell can make further communication with him, if required.

The number of grievances disposed by the Central Grievance Cell is:

F.Y. 2004-05	537
F.Y. 2004-05	616
F.Y. 2004-05	625
F.Y.2005-06(upto 0ct.05)	292

Central Board of Excise & Customs

The public grievances redressal machinery has been set up in the Central Board of Excise and Customs (CBEC) to deal with public and staff grievances and functions under the supervision of the Director (Admn.)in the CBEC, who has been nominated as the Grievances Officer. The CBEC and its field formations which comprise Central Excise and Customs Commissionerate all over the country have regular interface with a vide cross-section of the public namely, passengers at the international airports, importers exporters, Central Excise assesses and Service Tax assesses. Representations/complaints to the Board and its field officer primarily emanate from the aforesaid categories of the public as also from the staff and officers of the Department. The Board has an elaborate system of dealing with such complaints/ representations. At the Commissionerate level, there is a Public Grievances Committee, which has been directed to meet regularly to dispose specific representations from the trade. All the Executive Commissioners have been asked to hold regular Open House meeting with the representatives of the trade to discuss issues of mutual interest and utilize this forum to pursue matters of common interest with the Board for early solution. The minutes of such meeting are required to be sent to the Board for monitoring the functioning of such Committees. Further, each Executive Commissioner has nominated a Public Grievance Officer in the Commissionerate as well as in the lower field formations to attend to any grievance from the trade. As provided in the Citizen's Charter, the Commissionerates have been advised to acknowledge letters/representations from the trade and ensure that they are replied to promptly. The supervisory officers have to remain available to meet the representatives of the trade on working days and look into the difficulties experienced by them.

The appellate machinery which primarily consists of a large number of Commissioners (Appeals) ensures quick disposal of appeals filed by the trade against orders passed by the adjudicating authorities. The number of Commissioners (Appeals) has now been substantially increased as part of the Cadre restructuring exercise in order to ensure speedy disposal of appeals.

The Director of Publicity and Public Relations also receives grievances through e-mail. These are acknowledged and action is taken on these grievances.

Chief Controller of Factories (CCF)

Public grievances in CCF Organisation are dealt with instantly. More importantly, the labour grievances are dealt with expeditiously, and the relations between the manangement and workers have been harmonious and cordial. The much-improved redressal has led to higher morale and production.

25. DEVELOPMENT OF NORTH- EASTERN REGION AND SIKKIM

The Department is providing technical and financial support to the North Eastern States and Sikkim in taking up VAT computerization, which is a very critical requirement for successful implementation of VAT. In fact, the DG, Systems, CBEC is implementing a Turnkey Project, through TCS, for VAT computerization of 6 North Eastern States (other than Assam, where the computerization has been completed earlier) and another Project, through NIC, for VAT computerization in Sikkim. The total cost works out to about Rs. 12.50 crores for these Projects. The projects are in an advanced stage of completion. Upto 31 Dec. 2005, total expenditure of about Rs. 7.55 crores has been incurred on these Projects.

26. GENDER BUDGETING/ EMPOWERMENT OF WOMEN

Central Board of Excise & Customs

During the period from 01.4.2005 to 31.12.2005 an amount of Rs. 24, 00,000/- (Rupees twenty four lakh only) as ex-gratia was made to extent financial assistance in 25 cases to the wives of the employees who died in service and to eminent women of the Department.

Central Board of Direct Taxes

No case of discrimination or harassment of women at their work place has come to the notice of the Board. National Academy of Direct Taxes, Nagpur and some Regional Training Institutes coming under it, have been conducting seminars to sensitize the officers regarding various gender issues with a view to create harmonious and congenial environment at work place. This also helps in developing leadership in the department for handling the issues involved in management of gender diversity sensitively and effectively. A three day seminar on Gender sensitization was conducted in coordination with the National Centre for Gender Training planning and Research, LBS National Academy of the Administration, with a view to sensitize the middle and senior level officers of the department on the issues in general.

With a view to significantly lower the tax burden on the income tax payers, the basic exemption limit has been increased for women below the age of 65 to Rs. 1.35 lakh by Finance Act, 2005.

27. ACTIVITIES UNDERTAKEN FOR DISABILITY SECTOR & SC'S/ST'S & OTHER WEAKER SECTIONS OF SOCIETY

Department of Revenue (Headquarters)

A special drive to fill up backlog reserved vacancies for SCs/ STs in direct recruitment quota as well as in promotion quota was conducted in the Department of Revenue (Headquarters) & the subordinate offices under the administrative control of Revenue HQr. Seven backlog reserved vacancies in Group C & D for SCs/ STs were filled up during the drive.

Central Board of Direct Taxes

A special drive to fill backlog reserved vacancies for SCs/STs in direct recruitment quota as well as in promotion quota was conducted in the Central Board of Direct Taxes. Six hundred & twenty five backlog reserved vacancies in Group B, C & D for SCs/STs were filled up during the drive.

Central Board of Excise & Customs

During the year 2004-05, 930 posts were identified in Direct Recruitment Quota as backlog vacancies reserved for SCs/STs. In promotion quota, the backlog vacancies identified were 1492 posts. The details of these vacancies is as under:-

Direct Recruitment Posts (SC/ST)

S.No.	Name of Posts	SC	ST
1	Inspector (C.Ex)	163	175
2	Inspector (P.O)	68	37
3	Inspector (Examiner)	05	02
4	Tax Assistant	125	67
5	Stenographer, Gr III	23	18
6	Driver, Gr III	10	07
7	Hindi Typist	01	0
8	Jr. Hindi Translator	02	01
9	O.T.C	01	02
10	Sepoy	100	115
11	Safaiwala/Scavanger	02	04
12	Others	0	02
	Total	**500**	**430**

The post of Inspector (C.Ex), Inspector (P.O), and Inspector (Examiner) were to be filled through Graduate Level Examination, 2004. The final result has already been declared and dossiers of 103 SCs and 114 STs successful candidate of Inspector (Examiner), dossiers of 47 SCs & 36 STs in Inspector (P.O) has since been received from SSC. The allocation will only be made on receipt of dossiers of all successful candidates.

I. The vacancies of TA will be filled up through Special Recruitment Exam. Held on 11.12.2005, the result of the same is still awaited.

II. Three Drivers, One Hindi Typist, One Jr. Hindi Translator and 21 posts Sepoy have since been filled from SC category and 58 posts of Sepoy and one post of Scavanger have been filled from ST category. Regarding filling up of remaining post action has already been initiated.

Promotional Posts (SC/ST)

GROUP	Backlog Vacancies As on 1.7.2004	Number of Backlog Vacancies filled	Number of Backlog Vacancies are to be filled
A	02	—	02
B	376	94	282
C	870	301	569
D	246	59	187
Total	**1494**	**454**	**1040**

The remaining vacancies could not be filled due to non-availability of candidate even after allowing one time relaxation.

28. CENTRAL REVENUE SPORTS BOARD

The first meeting of the reconstituted CRSB was held under the Chairmanship of Shri Berjinder Singh, then Chairman C.B.D.T & President CRSB on 23rd August 05. In this meeting, the Annual Working Plan & Budget Estimate showing an expense of Rs. 45.50 lacs were discussed and approved.

A grant of Rs. 34 lacs has been sanctioned by the Govt., and the remaining amount by the Governing Body of the performance Award Fund of the CBEC to meet the estimated expenditure.

As in the previous years, the Sub zonal/Zonal Sports & Cultural Meet were completed by the end of November. The All India Sports meet was held at Jaipur from the 19th to 21st December 2005 and the All India Cultural Meet was organized at Kolkata from the 17th to 19th January 2006.

A detailed chart showing events already held and yet to be conducted is given below:.

S.No.	Name of the Event	Place	Held on
1	CRSB Institutional Table Tennis Tournament	Ahmedabad	22nd&23rd Sept'05
2	All India Literary Workshop	Shimla	20th &21st Oct'05
3	All India Cultural Workshop	Panaji (Goa)	10th & 11th Nov'05
4	Invitation Golf Tournament	Mumbai	25th Nov'05
5	All India Sports Meet	Jaipur	19th – 21st Dec'05
6	All India Cultural Meet	Kolkata	17th - 19th Jan'06

In addition to these events, Teams/Individual players from the Revenue Department have participated in a number of National/ All India Tournaments.

Events yet to be conducted -

1. CRSB Invitation Badminton Tournament (Kochi)
2. CRSB Invitation Lawn Tennis Tournament (Chennai/Madurai)
3. Founder's Day Celebrations (Delhi)
4. CRSB Inter state Cricket Tournament (Mysore)
5. CRSB Interstate Volley ball Tournament (Kolkata)
6. All India Swimming Championship (Kolkata)

(This event could not be held at Jaipur as part of the All India Sports Meet due to non-availability of swimming pool at Jaipur due to winter season)

In order to encourage more participation and to improve the standard of competition, the CRSB is proposing to introduce cash incentives during some of the CRSB events. During the inaugural function of the recently concluded All India Central Revenue Sports Meet at Jaipur, the President CRSB announced a cash award of Rs. 5,000/- to every athlete who shall create a new national record.

Brief details of the funds provided till date to the Zonal Committees and Event Conveners is given below:

S.No.	Event & Event Conveners	Amount Provided
1	CRSB Invitation Table Tennis TournamentCCIT-Ahmedabad	Rs. 75,000/-
2	All India Literary Workshop Commissioner of Income-tax – Shimla	Rs. 1,00,000/-
3	All India Cultural WorkshopChief Commissioner of Income-tax- Panaji (Goa)	Rs. 1,00,000/-
4	Invitation Golf TournamentChief Commissioner of Customs – Mumbai	Rs. 75,000/-
5	All India Central Revenue Sports MeetChief Commissioner of Income-tax, Jaipur	Rs. 8,50,000/-
6	All India Cultural MeetChief Commissioner of Customs – Kolkata	Rs. 4,00,000/-
7	Zonal Committees for Sub Zone/Zonal Sports & Cultural Meets(Rs. four lakhs fifty thousand to each of four zones)	Rs. 18,00,000/-

CHAPTER IV

DEPARTMENT OF DISINVESTMENT

1. Functions and Organisational Structure

The Department of Disinvestment was set up vide Notification No. CD/551/99 dated 10th December, 1999. Vide Notification No. CD-442/2001 dated 6th September, 2001, the Department of Disinvestment was renamed as Ministry of Disinvestment. The Ministry of Disinvestment was converted into a Department under the Ministry of Finance vide Notification No. CD-160/2004 dated 27th May, 2004 and has been assigned the following work :

(a) All matters relating to disinvestment of Central Government equity from Central Public Sector Undertakings.

(b) Decisions on the recommendations of Disinvestment Commission on the modalities of disinvestment, including restructuring.

(c) Implementation of disinvestment decisions, including appointment of Advisors, pricing of Shares, and other terms and conditions of disinvestment.

(d) Disinvestment Commission.

(e) Central Public Sector Undertakings for purposes of disinvestment of Government equity only.

(f) Financial policy in regard to the utilization of the proceeds of disinvestment channelised into the National Investment Fund.

2. Consequent upon change in the policy of the Government the term of Disinvestment Commission was not extended further and it was wound up with effect from 31st October, 2004.

3. Shri A.K. Jain assumed charge of the post of Secretary, Department of Disinvestment on 25th April, 2005.

4. Secretary, Department of Disinvestment is assisted by three Joint Secretaries. A post of Chief Executive Officer of the National Investment Fund has also been sanctioned. The Department functions on the Desk Officer pattern and the disinvestment work is handled at the minimum level of Under Secretary.

5. Organisational Structure

The Organisational Structure is depicted in Appendix – I

6. Policy on disinvestment

The National Common Minimum Programme (NCMP) adopted by the Government outlines the policy of the Government with respect to the Public Sector, including disinvestment of Government's equity in Central Public Sector Enterprises (CPSEs). The salient features of the NCMP in this regard are as follow:

(a) The Government is committed to a strong and effective public sector whose social objectives are met by its commercial functioning. But for this, there is need for selectivity and a strategic focus. The Government is pledged to devolve full managerial and commercial autonomy to successful, profit-making companies operating in a competitive environment. Generally, profit-making companies will not be privatized.

(b) All privatizations will be considered on a transparent and consultative case-by-case basis. The Government will retain existing "navratna" companies in the public sector while these companies raise resources from the capital market. While every effort will be made to modernize and restructure sick public sector companies and revive sick industry, chronically loss-making companies will either be sold-off, or closed, after all workers have got their legitimate dues and compensation. The Government will induct private industry to turn around companies that have potential for revival.

(c) The Government believes that privatization should increase competition, not decrease it. It will not support the emergence of any monopoly that only restricts competition. It also believes that there must be a direct link between privatization and social needs – like, for example, the use of privatization revenues for designated social sector schemes. Public sector companies and nationalized banks will be encouraged to enter the capital market to raise resources and offer new investment avenues to retail investors.

7. Proceeds from disinvestment

In January 2006, the Government sold 8% equity, out of its residual shareholding of 18.28% in Maruti Udyog Limited, to public sector financial institutions and banks. Government realized a sum of Rs.1567.60 crore through this sale.

8. National Investment Fund

The Government has constituted a National Investment Fund (NIF), into which the proceeds from disinvestment of Government equity in CPSEs would be channelised. The NIF would be maintained outside the Consolidated Fund of India and would be professionally managed by selected Public Sector Mutual Funds to provide sustainable returns without depleting the corpus.

75% of the annual income of NIF will be used to finance selected social sector schemes, which promote education, health and employment. The residual 25% of the annual income of NIF will be used to meet the capital investment requirements of profitable and revivable CPSEs that yield adequate returns, in order to enlarge their capital base to finance expansion / diversification.

The NIF will be operated by the selected Fund Managers under the 'discretionary mode' of the Portfolio Management Scheme, which is governed by SEBI guidelines. The work of NIF is supervised by Chief Executive Officer (CEO) of NIF. The additional charge of CEO, NIF is presently being held by one of the Joint Secretaries. An Advisory Board consisting of three part time members has also been constituted by the Government. The Board will advise on various aspects of the functioning of NIF.

9. Official Language Policy

The Department has a full-fledged Official Language Unit for handling all work relating to Official Language.

10. E-Governance

Personal computers with requisite software have been provided to all Officers and Personal Assistants. Local Area Network is also functioning. Twenty-four hour internet connectivity is available to all Officers through NIC. E-mail ID numbers have also been issued to all officers. The Officers and staff have been receiving training in computer operations at NIC from time to time.

The website of the Department (www.divest.nic.in) contains data and information (bilingual) regarding policy, guidelines, procedures and progress relating to the disinvestment cases as also the manuals etc., to be provided under the Right to Information Act, 2005. The site is updated on continuous basis. All advertisements, when issued in newspapers, are simultaneously placed on the website. The publications of the Department are also available on the website.

11. Grievance redressal

The Joint Secretary in-charge of Administration has been nominated as Director of Public Grievances. However, the nature of the allocated business of the Department does not envisage much of an interface with the public at large.

12. Vigilance machinery

The initial examination and handling of disinvestment related matters is done at the level of Under Secretary/Deputy Secretary/ Director. The Personnel, Administration, Security, Common services and Vigilance matters are dealt with by a multifunctional service section. The Administration Wing which includes vigilance is handled by one of the Joint Secretaries.

During the year three disciplinary cases were initiated.

13. Implementation of Right to Information Act, 2005.

In compliance with the provisions of the Right to Information Act, 2005, the Department has prepared the prescribed Manuals and posted these on its website. The Department has also appointed the Central Public Information Officer and the Appellate Authority and put in place the requisite mechanism for dealing with requests for providing information under the Act.

14. Audit paras/objections

(a) *Pertaining to Disinvestment Transaction*:

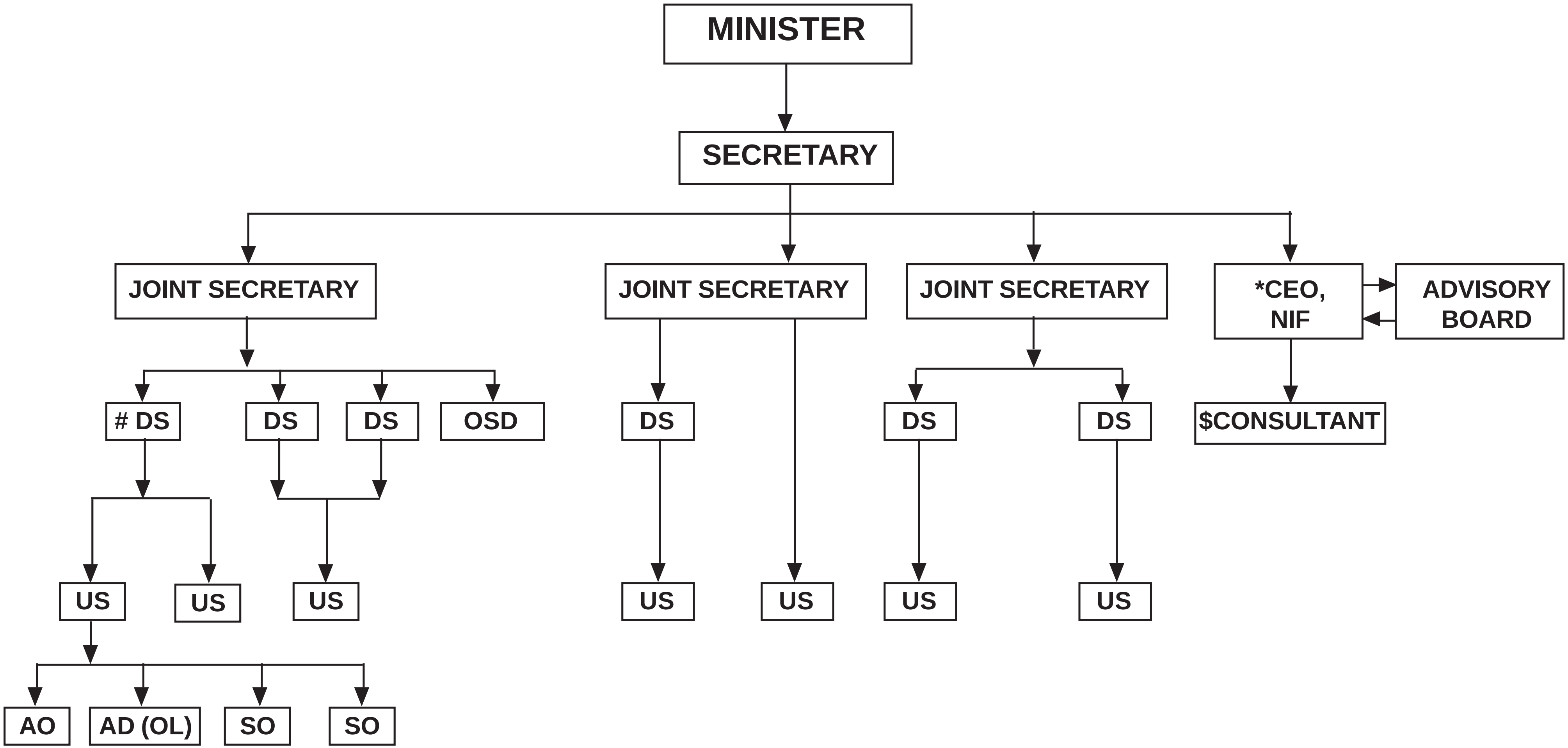
The Comptroller and Auditor General in his Report No. 2 of 2005 has made observations in regard to the disinvestment in two hotel units of Hotel Corporation of India (HCI). The summary of the observations is as under:

‘*Sale of HCI Hotels in Mumbai*: Sale transactions of two hotels, Juhu Centaur and Airport Centaur were finalized on the basis of single bids without the benefit of competition. Assumptions made during valuation of the properties and fixation of reserve price of Airport Centaur were not consistent with the practice followed by the Ministry in other cases. Repeated extensions and relaxations were allowed to the bidder of Juhu Centaur to facilitate the sale.’

(b) *Pertaining to Accounts of the Department* :

During the year, three audit observations pertaining to the audit of accounts of the Department for the period 1999-2002 remained unsettled. The office of the Principal Director of Audit conducted audit of the accounts for the year 2002-03. The report submitted by the office of the Principal Director of Audit contains 10 observations pertaining to the accounts of the Department. These are at the stage of rectification/corrective action.

DEPARTMENT OF DISINVESTMENT (AS ON 6.1.2006)



* Vacant: Charge being looked after by one of the Joint Secretaries.
\# Reporting to two Joint Secretaries.
$ Vacant.

ANNEX

SUMMARY OF IMPORTANT AUDIT OBSERVATIONS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA ON THE WORKING OF THE MINISTRY OF FINANCE

DEPARTMENT OF ECONOMIC AFFAIRS

Control Systems in India Security Press, Nashik: ISP Nashik approached the management of the printing and supply of the security papers and stamps to the Union/state governments, public sector undertakings and local bodies with an attitude of a vendor rather than as an entity entrusted with a high-risk sovereign function of the Government. It did not carry out appropriate risk assessment of the entire process of indent, printing and supply of stamp and stamp papers to the state and Union Governments and bodies and authorities in the public sector.

There was a serious disconnect between the objectives of the indenters and ISP in relation to stamp papers, a contributory factor to ISP's insensitivity to the risks.

ISP consistently printed and supplied the stamps and stamp papers far below the quantities indented by the state governments and other indenting agencies without a concern as to how the indenters coped with supplies of stamps and stamp papers less than half their indents. The documents in the ISP did not display a sound system of production planning, which was far removed from the indents placed by the users.

The perception of risk within ISP associated with different stages of production and supply of stamps was non-existent in as much as it had little control over production of security papers by the paper mills, most of which were in the private sector, over dandy rolls, which is a device to introduce watermark security features in the papers during the course of its production and on supply procedures including discrepancy and theft of stamps.

Far from eliminating all chances of misuse of machinery and equipment due for disposal by complete dismantling with a view to rendering them beyond reassembly, ISP management, in effect, facilitated possible misuse of the machinery by permitting for about two months up to 10 representatives of the successful bidder to watch the dismantling operations of the printing machine to be disposed of. It also sold the printing machinery and perforating machine to the same firm, M/S Unique Enterprises without assessing the risks associated with their sale to the same agency.

The sensitivity of ISP management to error signals was very low and effective lessons-learnt system did not exist. ISP failed to take appropriate measures, despite error signals manifesting in various forms viz thefts within ISP and in transit, missing dandy rolls and large number of counterfeit stamps detected upon examination of suspected documents received from investigating agencies for verification.

Adequacy and effectiveness of remedial measures in relation to indent, printing and supply of stamps and stamp papers in the wake of large scale counterfeit could not be verified in the absence of comprehensive information from ISP

(Report No. 14 of 2005)

Unauthorised expenditure on media campaign: Ministry of Finance did not obtain the approval of the Parliament before incurring an expenditure of Rs.63.23 crore on media campaign. The Ministry incurred the expenditure through diversion of funds although this activity was not contemplated in the annual budget and was, therefore, a New Service/New Instrument of Service.

(Report No. 2 of 2005)

Idling of funds and short-recovery of penal interest: Release of Rs.4.86 crore by the Ministry to Securities and Exchange Board of India (SEBI) in the last month of the financial year 1998-99 for being spent in that very year without proper assessment of the requirement of SEBI resulted in idling of Rs.2.93 crore for 28 months. The Ministry also short recovered Rs.35.85 lakh towards penal interest.

(Report No. 2 of 2005)

BANKING

Cent Bank Home Finance Limited suffered a loss of Rs.8.79 crore due to inadequate scrutiny of credentials of borrowers before disbursement of loans and deficient monitoring of the utilisation of the loans. Besides, loans of Rs.6.40 crore remain doubtful of recovery.

(Para 1.1.1 of Report No. 3 of 2005)
Commercial

Due to extending undue favour to a new client in granting financial assistance in the shape of loan and investment in its equity by relaxing financial security clause, the Industrial Investment Bank of India Limited' lending of Rs.9.65 crore is doubtful of recovery besides loss of interest thereon amounting to Rs.3.15 crore and the Company has incurred loss of investment of Rs.2 crore in the equity of the loanee.

(Para 1.2.1 of Report No. 3 of 2005)
Commercial)

The decision of the Industrial Investment Bank of India to acquire residential accommodation for officers at Ghaziabad without a realistic assessment of future demand from officers, led to blocking of Rs.1.55 crore.

(Para 1.2.2 of Report No. 3 of 2005)

INSURANCE

INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY

Irregular expenditure: Insurance Regulatory and Development Authority irregularly transferred Rs.11.00 crore to the Institute of Insurance and Risk Management.

(Report No. 4 of 2005)

Avoidable refund of renewal fee: Injudicious decision of Insurance Regulatory and Development Authority to reduce rates of renewal fee from 0.2 per cent to 0.1 per cent with retrospective effect resulted in irregular refund of Rs.8.94 crore.

(Report No. 4 of 2005)

General Insurance Corporation of India

Inadequate follow-up coupled with acceptance of insufficient security led to loans amounting to Rs.206.67 crore (including interest) given by the General Insurance Corporation of India and its subsidiaries becoming bad and doubtful of recovery.

(Para 9.1.1 of Report No. 3 of 2005)
Commercial

National Insurance Company Limited

National Insurance Company Limited suffered a loss of premium amounting to Rs.2.17 crore due to non-charging of additional premium on account of adverse claim ratio at the time of renewal of the policy.

(Para 9.2.1 of Report No. 3 of 2005)
Commercial

Failure of the Company to assess Probable Maximum Loss of a risk in time resulted in avoidable loss of Rs.1.78 crore to lead insurer and co-insurers.

(Para 9.2.2 of Report No. 3 of 2005)
Commercial

Delay in the appointment of architect and in finalising layout plan and interior decoration contract rendered an expenditure of Rs.1.03 crore towards payment of lease rent and municipal taxes for unoccupied space in a hired building, wasteful.

(Para 9.2.3 of Report No. 3 of 2005)
Commercial

The Company suffered loss of premium amounting to Rs.32.62 lakh due to non-adoption of loading prescribed by the Tariff Advisory Committee.

(Para 9.2.4 of Report No. 3 of 2005)
Commercial

The New India Assurance Company Limited

The New India Assurance Company Limited issued Group Janata Personal Accident insurance policies to the Government of Andhra Pradesh for the years 2001-02 to 2003-04 without adequately loading the premium based on past adverse claims experience. This resulted in loss of revenue to the extent of Rs.87.75 crore.

(Para 9.3.1 of Report No. 3 of 2005)
Commercial

Delay in finalising the contract of interior decoration of the newly acquired premises resulted in blocking of funds of Rs.4.19 crore and consequential loss of interest of Rs.91.90 lakh on the blocked capital.

(Para 9.3.2 of Report No. 3 of 2005)
Commercial

Delay in utilisation of Company’s own vacant premises due to improper planning resulted in avoidable payment of rental charges of Rs.3.27 crore.

(Para 9.3.3 of Report No. 3 of 2005)
Commercial

The New India Assurance Company Limited reimbursed part of the expenses incurred by persons other than Insurance Agents for canvassing and procuring Mediclaim Policies, in violation of provisions of the Insurance Act, resulting in irregular payment of Rs.1.05 crore.

(Para 9.3.4 of Report No. 3 of 2005)
Commercial

A Divisional Office charged lower premium in violation of instructions of Head Office, resulting in loss of Rs.74.19 lakh.

(Para 9.3.5 of Report No. 3 of 2005)
Commercial

The Company incurred an avoidable expenditure of Rs.51.81 lakh due to inordinate delay in obtaining reinsurance cover for the policy issued to M/s. Hanil Era Textiles Limited.

(Para 9.3.6 of Report No. 3 of 2005)
Commercial

The Company lost a premium of Rs.46.43 lakh due to not levying the rating for the ‘Add-On covers’ such as flood, storm and tempest and earth quake on the Jewellers Block Insurance Policies.

(Para 9.3.7 of Report No. 3 of 2005)
Commercial

The Oriental Insurance Company Limited

Failure to charge premium at prescribed rates and also not to include a special condition in the policy document that the premium charged was provisional and subject to final rating/approval by TAC resulted in short realisation of premium by Rs.4.29 crore.

(Para 9.4.1 of Report No. 3 of 2005)
Commercial

The Company suffered a loss of Rs.2.84 crore due to application of incorrect Tariff and consequent lower rate of premium.

(Para 9.4.2 of Report No. 3 of 2005)
Commercial

Delay in settlement of claim by the Company resulted in extra payment of Rs.1.63 crore apart from avoidable litigation expenses of Rs.27.90 lakh

(Para 9.4.3 of Report No. 3 of 2005)
Commercial

The Company settled a claim for loss of profit, which was inadmissible resulting in loss of Rs.58.73 lakh.

(Para 9.4.4 of Report No. 3 of 2005)
Commercial

The Oriental Insurance Company Limited (Company) did not load the premium as per guidelines resulting in a loss of premium of Rs.17.54 lakh.

(Para 9.4.5 of Report No. 3 of 2005)
Commercial

United India Insurance Company Limited

The Company suffered a loss of Rs.3.67 crore due to allowing of excess discount and non-loading of premium on account of adverse claim ratio.

(Para 9.5.1 of Report No. 3 of 2005)
Commercial

Contrary to the practice of annual renewal, the Company issued a short-term renewal policy to avoid loading of premium due to adverse claim experience and circumvented the All India Fire Tariff regulations. This resulted in loss of revenue to the Company to the extent of Rs.50.52 lakh.

(Para 9.5.2 of Report No. 3 of 2005)
Commercial

The Company suffered loss of premium of Rs.42.29 lakh due to erroneous inclusion of Group Mediclaim in Compact policy and non-loading of premium in view of adverse claim.

(Para 9.5.3 of Report No. 3 of 2005)
Commercial

General Insurance Companies

A test check in Audit revealed non/short recovery of premium by General Insurance Companies in 27 cases aggregating to Rs.3.30 crore due to allowing excess discount, incorrect application of premium rates, allowing excessive refund, non-recovery of loss/claim from the transport carrier/ re-insurers, etc. Out of this, Rs.3.03 crore was recovered after being pointed out in Audit (May 1999-November 2003).

(Para 9.6.1 of Report No. 3 of 2005)
Commercial

National Insurance Company Limited
Oriental Insurance Company Limited

Special Category Insurance Policies to cover risk of Mobile handsets by Insurance Companies

(i) The review of Special Contingency Policies (SCPs) on mobile handsets revealed that the National Insurance Company Limited (NIC) and the Oriental Insurance Company Limited had underwritten the risks associated with mobile handsets without careful evaluation of the risk factor involved and other technical aspects, which resulted in heavy losses to these companies. An analysis by audit revealed that SCPs issued were devised primarily to suit the requirements of the insured, without safeguarding the insurers' interest owing to non-adoption of the prudent underwriting guidelines.

(ii) The failure on the part of the management to obtain reinsurance protection, ensure the compliance of IRDA/GIPSA guidelines as well as non-inclusion of the loading clause deprived the Company of the opportunity to reduce its losses in all the SCPs issued during 2002-03 to 2004-05 which resulted in huge loss amounting to Rs 142.63 crore (NIC Rs.126.58 crore and OIC Rs.16.05 crore) and made GIC suffer loss amounting to Rs.41.37 crore.

(iii) The system of internal control that existed in the Company was inadequate and needed to be strengthened.

(Report No. 4 of 2005)
Commercial

Union Government Finances and Accounts: 2003 - 2004

During 1985-2004, the average annual trend rate of growth of revenue receipt was not only comparatively lower than the growth of GDP, there was also a significant deceleration in the growth rates over the plans. The net revenue as per cent to GDP declined from an average of 12.71 per cent during 1992-97 (VIII Plan) to an average of 12.23 per cent during 2003-04.

Interest payments emerged as the fastest growing component of the Union Government expenditure with a trend growth of 17.57 per cent during 1985-2004. Explicit subsidies of the Union Government increased from an average of 13,469 crore during 1992-97 to Rs.44968 crore during 2003-04.

The borrowings were mainly used for debt servicing. On an average 95.01 percent of the borrowings were used for either repayment of principal or the interest.

(Report No. 1 of 2005- Accounts of the Union Government)

Review of Grant No. 33

Unspent Provision

The unspent provision during 2003-04 was Rs.3592.68 crore. During the previous yeas it was Rs.1246.45 crore.

Rush of Expenditure

During the years 2001-04 there were 17 instances involving rush of expenditure during the month of March ranging between 34 to 100 percent of the total disbursement of the respective major head.

Surrender of unspent provision

Contrary to Rule 69 of GFRs, unspent funds ranging from Rs.4.63 crore to Rs.2427.03 crore were surrendered towards the end of financial years during 2001-04.

Unrealistic Budgeting

During 2001-04 there were persistent under utilisation of provisions under some sub-heads which indicated unrealistic budgeting and deficient financial management. There were 18 such cases during 2001-04 where provisions remained unutilised ranging between 52 to 100 per cent.

(Report No. 1 of 2005- Accounts of the Union Government)

DEPARTMENT OF REVENUE

CUSTOMS

The report contains three reviews and 251 paragraphs involving financial implication of Rs.7430.74 crore. Some of the important audit findings that emerged were:

Actual receipts of Rs.48, 613 crore collected from customs duties during 2003-2004 fell short of the Budget estimates by Rs.737 crore. The total duty foregone under export promotion schemes, during the year was Rs.39, 704 crore which was 82 percent of the total customs receipts.

The Review on Import general manifest (IGM)/export general manifest (EGM) revealed:

Non-receipt of 14,093 IGMs by manifest clearance Department (MCD) from import Department (ID) in 24 Commissionerates revealing lack of coordination/effective follow up action on their part. Non-levy of penalty for non/belated receipt of IGMs/EGMs amounted to Rs.63.23 crore. There was 94 per cent increase in pendency of IGMs at MCD at the end of 2002 compared to 1999 in 23 Commissionerates. Age analysis of 82,505 IGMs revealed that 42 per cent were pending for more than three years in 15 Custom houses. Non-closure of IGMs/non-disposal of unclaimed, un-cleared goods and non-payment of duty where bills of entry were filed led to blockage of revenue of Rs.280.66 crore. In four Commissionerates, 430 IGMs, in which bonds for Rs.71.06 crore were executed, were pending disposal due to non-receipt of landing certificates. Revenue loss occurred due to non-levy of penalty of Rs.17.05 crore for short landed goods and duty of Rs.1.09 crore for pilfered goods. There were 11,600 out-turn-statements (OTS) in respect of 19,420 IGMs in five Commissionerates not received by MCD. In two Commissionerates 30,386 letters of call (LOC) were pending as on 31 December 2003. In 23 Commissionerates, 91,900 EGMs were pending closure at the end of 2002. In eight Custom houses 14,322 had not been filed and 2721 were filed late in three Custom houses.

The review has brought out several instances of violations of rules and procedures framed to give effect to provisions in the Customs Act regarding filing/closure of IGMs/EGMs, departures from provisions of MCD manual in issue of LOC, timely receipt of OTS, non-levy of penalty for short landed and pilfered goods. Lack of monitoring and ineffective internal control mechanism further led to substantial revenue remaining unprotected. Audit therefore recommends that the Department improve compliance to the rules and regulations laid down in the Act and manual and strengthen its internal controls.

The Review on Inland container depots (ICD) revealed that:

Customs revenue of Rs.2400 crore remained unprotected against risk of loss, pilferage etc. due to non/deficient execution of bond/ Bank guarantee (BG) by custodians for storage of import cargo, by carriers for transhipment of export cargo, non renewal of BG, and insufficient insurance coverage of goods at ICD/container freight station (CFS). Non-disposal of unclaimed/un-cleared/confiscated, imported/export goods involved blockage of customs revenue to the extent of Rs.287.96 crore.

Delay in disposal of unclaimed/un-cleared and confiscated goods and injudicious decision of custodian caused loss of Rs.2.96 crore. Department failed to protect duty of Rs.12.49 crore by not forfeiting bonds on account of non receipt of landing certificates. Non receipt of transference copies of shipping bills within 90 days for exports made between April 2000 and March 2003 entailed recovery of drawback amounting to Rs.344 crore. Test check revealed in 27 ICDs of 10 Commissionerates absence of system of reconciliation of containers.Neither gateway port nor custodians furnished periodical details. Failure to re-export 2404 containers imported without payment of duty in five Commissionerates entailed recovery of duty amounting to Rs.23.57 crore.

The review has revealed several instances of violation of rules, regulations and procedures framed under the Customs Act relating to deficiency of bond/BG, insufficient insurance coverage, non/delayed disposal of unclaimed/un-cleared, confiscated goods, non/ delayed recovery of custom duty on auctioned goods, non receipt of landing certificates, deficiency in tracking system, etc. Monitoring mechanism through physical check or other wise was weak. Insufficient use of EDI system for tracking purposes was evident. In view of large scale non-disposal of unclaimed/un-cleared, confiscated goods lying in the ICDs, audit recommends system of periodical physical verification by appropriate machinery and a time bound clearance of long pending accumulations.

Another Review on Recovery of arrears of revenue revealed that:

Of the 7345 confirmed demand cases involving Rs.1539.02 crore in 34 Commissionerates, pending as on 31 December 2003, 4230 cases involving Rs.412.24 crore were pending for more than three years.Blocked revenue arrears were 32.36 per cent of revenue assessed in these Commissionerates. Sixty eight per cent of pendency lay with the Department. Recovery proceedings had not been initiated in 1844 cases involving Rs.127.79 crore though no appeals were pending. Benefits envisaged by creation of a special recovery cell in each Commissionerate for speedy recovery of revenue arrears had not materialised. Inaccurate reporting of pendency involving Rs.321.54 crore in 1396 cases was found, indicating failure of reporting/monitoring mechanism. Certificate action under the Act had been initiated only in 3347 out of 7345 cases in 18 Commissionerates with delay of one to 15 years involving Rs.270.70 crore, of which only Rs.10.50 crore had been recovered. In 835 cases in four Commissionerates involving Rs.307.40 crore, failure to invoke provisions of Attachment of Property rules were noticed. Penalties amounting to Rs.281.65 crore imposed in 8559 cases were pending realisation, of which Rs.147.21 crore in 6909 cases constituting 52 per cent were pending for more than three years.

The review has revealed failure of system and weak monitoring in the recovery of arrears.Inaction or delayed action under provisions of the Act despite availability of statutory framework, and tardy certificate action to recover personal penalties or attach property was noticed. Arrears consequently doubled in the last two years. Audit therefore, recommends activation of special recovery cells, a firm internal control mechanism to watch recovery and effective departmental action under the Statute if substantial recovery is to be ensured.

Apart from reviews the report pointed out irregularities in assessment due to incorrect classification, incorrect grant of exemption, under valuation, non levy of Additional duty, non recovery from defaulting export houses and other irregularities amounting to Rs.941.10 crore.

The Department/Ministry have replied to audit observations in 177 paragraphs out of 251 paragraphs referred to them and reported recovery of Rs.10.06 crore. Four hundred and fifty three other cases involving duty of Rs.69.07 lakh were pointed out to the department. Department has accepted the objections and reported recovery of Rs.60.03 lakh in 452 cases.

(Report No 10 of 2005)
Indirect Taxes (Customs)

CENTRAL EXCISE

The actual collections fell short of the budget estimates as well as the revised estimates year after year. Despite this, the government continued to make optimistic projections during presentation of the annual budget. The budget estimate 2003-04 was pitched at Rs.96, 396 crore, an increase of 5.76 per cent over budget estimates, 10.8 per cent over revised estimate and 17.50 per cent over actuals of 2002-03. The collections fell short of the budget estimates by Rs.6, 006 crore or 6.23 per cent and short of revised estimates by Rs.1, 460 crore or 1.58 per cent.

The Report commented on two Reviews. 'Review on excise duty on motor vehicles for transport of persons and goods' revealed that reduction in excise duties had a negative effect on net excise collection. Growth in sales did not match such reduction either. Benefits of reduced duty were not adequately passed on to consumers, with luxury segment manufacturers retaining large proportion of the duty cuts, payment of excise duty on 'agreed price' instead of on normal transaction value, payment of duty on the amount lower than the transaction value etc. involved financial implication of Rs.644.44 crore.

Review on the 'working of excise audit – 2000' revealed that the creation of database of assessees profiles was not complete. Non-mandatory units were taken up for audit. Inadequate and skewed coverage of units, lack of proper selection, lapses in implementation at Commissionerate level and a deficient control environment were noticed.

Other points were also pointed out in the Audit Report such as:

Continued retention of exclusion clause relating to branded and export goods for purpose of reckoning eligibility limit of Rs.3 crore in the exemption notifications relating to general small scale scheme enabled 278 large manufacturers to derive unintended benefit of duty exemption amounting to Rs.40.41 crore during the year 1999-2000 to 2003-04.

(Paragraph 4.3 of Audit Report No 11 of 2005- Indirect Taxes (Central Excise & Service Tax)

Incorrect availment of Modvat /Cenvat credit amounted to Rs.312.49 crore.

(Paragraph 6 of Report No 11 of 2005)
Indirect Taxes (Central Excise & Service Tax)

SERVICE TAX

Review on 'service tax on consulting engineers services, architects services and interior decorators services' revealed that measures taken by the Department to bring unregistered service providers into the tax net proved ineffective and inadequate. Ineffective monitoring of returns from registered service providers was in evidence. Total revenue implications were of Rs.518.63 crore.

Audit also reported 20 paragraphs with revenue implication of Rs.17.56 crore relating to non-payment/recovery of service tax, escapement of service tax, non-levy of service tax on services provided by foreign consultants and non-realisation of interest on delayed payment of service tax.

(Report No 11 of 2005)
Indirect Taxes (Central Excise & Service Tax)

DIRECT TAXES

Board's replies on Draft paragraphs: During 2003-04, out of 931 draft paragraphs issued to the Ministry, replies were received before the finalisation of the Audit Report in case of 96 draft paragraphs only, which constitutes only 10 per cent of the total draft paragraphs issued.

(Para 1.6 of Chapter I of Report No 12 of 2005)
Direct Taxes

Outstanding audit observations: As on 31 March 2004, 77,211 observations (excluding the audit observations communicated between 1 April 2003 to 31 March 2004) involving revenue effect of Rs.19, 869.73 crore were pending for final action.

(Para No. 1.9.1 of Chapter I of Report No 12 of 2005)
Direct Taxes

Records not produced to Audit: With the view to securing an effective check on the assessment, collection and proper allocation of taxes and to check that such regulations and procedures are being observed, assessment records are scrutinized in revenue audit. It is incumbent on the Department to expeditiously produce the records and furnish relevant information to audit. As on 31 March 2004, the department did not produce 25,227 cases representing 70.35 percent of cases not produced during earlier audits and requisitioned again in 2003-04, to audit which included 69 cases not produced in 3 or more consecutive audit cycles in Andhra Pradesh, Karnataka, Madhya Pradesh, Orissa, Tamilnadu and Maharashtra charges. Consequently, audit of such cases could not be carried out.

(Para No. 1.14 of Chapter I of Report No 12 of 2005)
Direct Taxes

Internal audit: Although the manpower for internal audit had increased by 1079 *per cent* after introduction of the new chain system, there was a shortfall of 62.47 *per cent* with reference to total auditable cases in 2003-04.

(Para No. 1.12 of Chapter I of Report No 12 of 2005)
Direct Taxes

Remedial Action time barred: Revenue of Rs.109.52 crore was lost in 1755 cases, as remedial action was not taken in time.

(Para No. 1.11 of Chapter I of Report No 12 of 2005)
Direct Taxes

Tax collection: Direct tax collections increased from Rs.57, 959 crore in 1999-00 to Rs.1, 05,089 crore in 2003-04 at a compound annual rate of growth of 18.02 percent.

(Para 2.5, Table 2.4 of Chapter II of Report No 12 of 2005)
Direct Taxes

Position of assessments: Disposal of scrutiny assessments had increased to 51 percent of the assessments due as compared to 19 percent in 2002-03 but disposal of summary cases had come down to 79 percent of total summary assessments due for disposal as compared to 92 percent in 2002-03.

(Para 2.9, Table 2.11 of Chapter II of Report No 12 of 2005)
Direct Taxes

Incorrect accounting of interest on refund: Expenditure on interest on refunds amounting to Rs.6, 268.07 crore was treated as reduction in revenue although interest was never collected in the first instance and no provision for 'interest on refunds' was made in the budget estimates for 2002-03, which is violative of Government of India orders/codal provisions.

(Para 2.15 of Chapter II of Report No 12 of 2005)
Direct Taxes

Arrears of demand: Uncollected amount of Rs.88, 017 crore of total demand of Rs.1,93,106 crore as on 31 March 2004 comprised demand of Rs.57, 064 crore of earlier years and demand of Rs.30, 953 crore pertaining to the current year 2003-04.

(Para 2.10, Table 2.13 of Chapter II of Report No 12 of 2005)
Direct Taxes

Important individual irregularities:

(i) Assessment of **M/s. Essar Investment Ltd.** in Tamil Nadu, Central II Chennai charge for the assessment year 1994-95 was completed after scrutiny. The assessee transferred 400 lakh share warrants to its wholly owned subsidiary at Rs.240 crore. The transfer of warrants, which were held for a short period, were nothing but sale of business assets i.e. (stock in trade) and therefore taxable under the head business income. The assessing officer omitted to assess the sale proceeds amounting to Rs.240 crore as business income resulted in under assessment of a like sum involving a tax effect of Rs.210.75 crore including interest. The department had rectified the assessment in March 2001 and additional demand of Rs.254.45 crore was raised.

(Para 3.9.1 of Report No 12 of 2005)
Direct Taxes

(ii) Assessment of banking company, **M/s. Uco Bank**, in West Bengal II, Kolkata charge for the assessment year 2000-01 was completed after scrutiny. The assessee was allowed set off of Rs.221.08 crore and further carry forward of Rs.373.97 crore of loss pertaining to assessment year 1993-94 instead of allowing the required amount of loss of Rs.88.17 crore pertaining to assessment year 1993-94. The total tax effect worked out to Rs.195.15 crore including potential tax effect of Rs.143.98 crore. Department has accepted the observation.

(Para 3.14.2 of Report No 12 of 2005)
Direct Taxes

(iii) Assessment of an individual, **Ms. Susila Ramasamy** in Tamil Nadu, Central II, Chennai charge for the assessment year 1996-97 was completed after scrutiny. While converting US Dollars 6,25,000 into Indian Rupees, the conversion rate was erroneously applied as Rs.3 per US dollar by the assessing officer instead of adopting the applicable rate of Rs.30 to a dollar. The mistake resulted in under assessment of income of Rs.1.69 crore involving tax of Rs.2.51 crore including interest. Department had taken remedial action by raising demand of Rs.2.51 crore.

(Para 4.15.1 of Report No 12 of 2005)
Direct Taxes

(iv) Assessment of a firm, **M/s. Chhotanagpur Cattlefood Supply Co. Ranchi** in Bihar, Patna Central charge for the assessment year 1995-96 initially completed after scrutiny was rectified. The assessing officer incorrectly charged income tax at the rate of 35 percent instead of chargeable rate of 40 percent, which resulted in short charge of tax including interest-aggregating Rs.2.36 crore. Department had accepted the observation.

(Para 4.7.1 of Report No 12 of 2005-Direct Taxes)

(v) Interest tax assessment of a bank, **M/s. Oriental Bank of Commerce** in Delhi V charge for the assessment year 1999-2000 was completed after scrutiny. While computing the chargeable interest, the assessing officer did not include the interest income of Rs.223.38 crore that had accrued as interest on debentures/bonds. The mistake resulted in short levy of interest tax of Rs.6.61 crore including interest.

(Para 5.18.4 of Report No 12 of 2005)
Direct Taxes

Status and adequacy of 'follow up' action in selected post-VDIS-1997 assessments

(vi) Audit attempted an evaluation of the status and adequacy of 'follow up' action in selected post VDIS 1997 assessments based on audit comments on VDIS 1997 in the Audit Report 12A of 2000.

(vii) In respect of 78 percent of the new assessees making declarations under VDIS, 1997 and selected for the study by Audit, neither their returns were available with the assessing officers nor had the assessing officers taken any action/conducted any survey to ensure that the declarants remained in the tax net.

(viii) Audit noticed that remedial action was taken only in 86 cases where certificates were not issued to the 268 declarants who had not paid any tax. Tax effect involved was Rs.171.25 crore.

(Chapter VI of Report No 12 of 2005)
Direct Taxes

SYSTEM REVIEWS

Status of improvement of efficiency through the 'Restructuring' of the Income Tax Department

(ix) Audit examined the status of improvement of efficiency and productivity of the Income Tax Department consequent to the implementation of a proposal for its restructuring in August 2000 by the Union Cabinet.

(x) Overall direct taxes collection increased but was contributed by increase in pre-assessment collections than post assessment collections, which did not test the assessment, investigation or recovery skills of the increased workforce of the department.

(xi) The extent of increase in collection of taxes that was directly attributable to increase in efficiency and productivity after restructuring of the department was not possible to be ascertained, as specific and supporting data was not maintained.

(xii) Board did not lay down nor enforce a uniform policy for monitoring and reducing the number of stop filers and realizing the revenue due from them.

(xiii) The amount of interest paid on refunds increased by more than 300 percent between 1999-2000 and 2003-04. Interest as a percentage of refunds increased from 10.36 to 18.26 during this period. Average delay in payment of refunds increased from about 8 months in 1996-97 to 10.36 months in 1999-2000 and further to 27.38 months in 2003-04.

(xiv) Despite introduction of new chain system of internal audit, percentage of shortfall with reference to target had increased after restructuring as compared to the pre-restructuring period.

(Chapter I of Report No 13 of 2005)
Direct Taxes

Efficiency and effectiveness of administration and implementation of selected deductions and allowances under the Income Tax Act

(xv) Audit reviewed the administration and implementation of six types of deductions and allowances granted under sections 32, 35, 80-HHD, 80-HHF, 80-IA and 80-IB of the Income Tax Act with a view to examining the adequacy of law, rules and procedures to safeguard the interests of revenue.

(xvi) Audit test checked around 1.3 lakh assessments spread over three assessment years and found mistakes in 760 cases involving a tax effect of Rs.624 crore. 452 of these were summary assessments where tax effect involved was Rs.341 crore representing around 52 percent of total tax effect.

(xvii) In addition, lacunae in law such as not defining ‘tourist’, ‘plant’, ‘loose tools’, ‘manufacture and production’, not disallowing ‘duty drawback’ receipts before granting deduction for export of software and so on involved a revenue of Rs.35 crore in 33 cases.

(xviii) Review revealed that administration and implementation of the selected deductions and allowances under the Act may not have effectively helped in achievement of any of their principal objectives and ended up in litigation and loss of revenue. There was no mechanism available in the department to objectively assess the performance of the selected provisions of the Act vis-à-vis their objectives.

(Chapter II of Report No 13 of 2005
Direct Taxes

Some aspects of non-resident taxation with reference to double taxation avoidance agreements

(xix) Audit reviewed some aspects of administration and implementation of double taxation avoidance agreements (DTAAs) with selected countries and taxation of non-residents including maritime business in particular as well as other issues like mutual agreement procedure, exchange of information and assistance in tax collection.

(xx) A comparative study of 12 selected DTAAs revealed that there was no uniformity or consistency in defining the existence of a Permanent Establishment (PE) based on the minimum threshold period of existence.

(xxi) Test check of mutual agreement procedure (MAP) cases revealed that there was inadequate co-ordination between the Board and the assessing officers resulting in appellate authorities taking contrary views on resolutions arrived at by competent authorities.

(xxii) Thirteen cases were pending resolution for periods ranging from two to five years resulting in blockade of revenue of Rs.425.42 crore. Non-implementation of the resolution arrived in four MAP cases in favour of revenue resulted in non-levy of tax of Rs.102.50 crore.

(Chapter III of Report No 13 of 2005)
Direct Taxes

DEPARTMENT OF DISINVESTMENT

Sale of HCI hotels in Mumbai: Sale transactions of two hotels, Juhu Centaur and Airport Centaur were finalised on the basis of single bids without the benefit of competition. Assumptions made during valuation of the properties and fixation of reserve price of Airport Centaur were not consistent with the practice followed by the Ministry in other cases. Repeated extensions and relaxations were allowed to the bidder of Juhu Centaur to facilitate the sale.

(Report No. 2 of 2005)