ANNUAL REPORT
2004-2005

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
NEW DELHI

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INTRODUCTION

The report reviews the activities of the Ministry of Finance during the year 2004-2005. 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 2004-2005.

The Ministry comprises of the 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 year 2003-04 began against the backdrop of a drought induced deceleration in real Gross Domestic Product (GDP) growth to 4.0 per cent in 2002-03, mainly because of a sharp decline of 7.0 per cent in the agriculture and allied sector. Growth bounced back in 2003-04 to 8.5 per cent, supported by a growth of 9.6 per cent in agriculture and allied sector, 6.6 per cent in industry and 9.1 per cent in the services sector. Thus, the growth of the economy in 2003-04 was broad based. Revival of industrial growth witnessed in 2002-03 continued through 2003-04. In 2003-04, India was one of the fastest growing economies among the major emerging market economies. The GDP growth of 8.5 per cent in 2003-04 is significant as a growth rate higher than this had been achieved earlier only on two occasions, when the growth was 9.0 per cent in 1975-76 and 10.5 per cent in 1988-89.

The quarterly estimates released by the Central Statistical Organisation place the real GDP growth in the first (April-June) and second (July-September) quarters of 2004-05 at 7.4 per cent and 6.6 per cent, respectively, compared to a growth of 5.3 per cent and 8.6 per cent, respectively in the corresponding quarters of the previous year. As per the advance estimates released by the Central Statistical Organisation, the overall growth in 2004-05 is estimated at 6.9 per cent compared to 8.5 per cent in the previous year. The growth for 2004-05 is based on estimated growth of 1.1 per cent in agriculture and allied sector, 7.8 per cent in industry and 8.9 per cent in the service sectors respectively. The lower growth in agriculture and allied sector is on account of lower kharif output.

Developments in Prices and Agriculture

Inflation

Annual point-to-point inflation rate in terms of Wholesale Price Index (WPI) declined from 6.5 per cent in 2002-03 to 4.6 per cent in 2003-04. The year 2004-05 started with an inflation rate of 4.5 per cent on April 3, 2004 but had an upward trend until August 28, 2004, when it reached the peak level at 8.7 per cent. Since then it had a declining trend and stood at 5.8 per cent on January 01, 2004 compared to 6.4 per cent a year ago. However, the 52-week average inflation rate at 6.5 per cent on January 01, 2005 is higher than 5.4 per cent registered a year ago.

During post reforms period, there had been distinct deceleration of inflation due to liberalisation of both internal and external trade, continued reduction and rationalization of taxes and duties leading to greater competition and cost-efficiency. Average Annual WPI Inflation decelerated from 10.6 per cent between 1991-92 and 1995-96 to 4.1 per cent between 2001-02 and 2003-04.

The trend was reversed in 2004-05 with distinct pressures on prices in all groups. Erratic and delayed monsoon with uneven distribution of rainfall over time and space had adverse impact on kharif agricultural production and fuelled inflation of some agro-based products. Hardening of international prices of crude oil, minerals and metal related products exacerbated the situation. Imported inflation, therefore, played a crucial role in raising inflation in 2004-05.

Retail price inflation is commonly measured by the Consumer Price Index for Industrial Workers CPI-IW. The inflation rate based on CPI-IW after touching a peak of 4.8 per cent in September 2004, declerated to 3.8 per cent in December 2004.

Containment of inflation remains high on the agenda of the Government. Anti-inflationary policies of the Government include strict fiscal and monetary discipline, rationalisation of excise and import duties of essential commodities so that there is no undue burden on the poor, effective supply-demand management of sensitive items through liberal tariff and trade policies, and strengthening the public distribution system.

Agriculture

Compared to 2003, the southwest monsoon this year was erratic with prolonged weak/break monsoon conditions prevailing during late June, most of July, late August and early September over different parts of the country. For the country as a whole, the seasonal rainfall from 1st June to 30th September was 87 per cent of its Long Period Average (LPA). Among the four homogeneous regions, northwest India was the worst affected with the rainfall deficiency of 22 per cent. The rainfall deficiency over Central India, northeast India and South Peninsula was 11 per cent, 6 per cent and 15 per cent respectively. The rainfall was normal in 23 out of 36 meteorological sub-divisions and the remaining 13 subdivisions registered deficient rainfall. 56 per cent of the meteorological districts received excess/normal rainfall and the remaining 44 per cent received deficient/scanty rainfall.

The overall kharif foodgrains production during 2004-05 is estimated to be 100.29 million tonnes (1st Advance Estimates) compared to last year's production of 112.05 million tonnes (fourth advance estimates). The kharif rice production is expected to be 71.1 million tonnes. The total production of kharif coarse cereals is estimated to be 24.50 million tonnes. Production of kharif oilseed (total), is estimated to be 15.5 million tonnes.

Procurement of rice as on December 1, 2004 is 92 lakh tonnes as against 88 lakh tonnes procured last year. In respect of wheat, procurement as on December 1, 2004 is 168 lakh tonnes as against 158 lakh tonnes procured last year. The total stock of rice and wheat held by the FCI as on 1st December 2004 was 217.8 lakh tonnes comprising 111.4 lakh tonnes rice and 106.6 lakh tonnes of wheat.

Developments in Industry and Infrastructure

Industry

Growth in the industrial sector in 2004-05 continued to be healthy. Industry posted a high growth rate of 8.4 per cent during April - November 2004-05. The impressive industrial growth was on the back of a robust growth in the manufacturing sector. Manufacturing component of the Index of Industrial Production (IIP), having a weightage of 79.4 per cent, clocked a robust growth rate of 8.9 per cent during April-November 2004-05. The mining and electricity sectors have also shown improvement and grew by 4.9 per cent and 6.8 per cent respectively. The impressive growth was broad based, spread across most industry groups. Some other specific sectors also performed well.

A key driver of manufacturing seems to be the Capital goods sector, suggesting that an investment recovery is well under way. Capital goods witnessed a double-digit growth rate of 13.5 per cent. Machinery and equipment, which posted the highest growth rate of 23.1 per cent, spread across most industry groups, remained the major contributor to the impressive performance of capital goods. The robust growth in the capital goods segment indicates capacity expansion drive by industry.

In the case of Consumer goods, growth rate during the initial months of the current year was moderate; subsequently it picked up momentum to register a double-digit growth of 10.5 per cent during April - November. Although, both the segments of consumer goods category showed buoyancy, the growth in the case of consumer durable goods, at 15.8 per cent was more pronounced. This shows that the less than normal rainfall during this year has not made any dent in the consumer demand. Low interest rates have also fuelled the growth of consumer goods. Multiplier effects of an increase in investment spending also manifested in the revival of consumer demand.

Basic goods and Intermediate Goods maintained moderate growth rates of 5.7 and 7.2 per cent, respectively, during April - November 2004-05.

Infrastructure

Infrastructure sector covers the services of transportation (railways, roads and road transportation, ports and civil aviation); communications (telecommunication and postal services); electricity and services such as water supply and sanitation, solid waste management and provision of other common overheads.

The Index of six core infrastructure industries (Electricity generation, Coal, Steel, Crude oil, Refinery throughput and Cement) registered a growth of 5.4 per cent in April-December, 2004-05 against 5.8 per cent in April-December, 2003-04. The six infrastructure industries have a weight of 26.68 per cent in the Index of Industrial Production (IIP). The highest growth was in cement production, which registered an increase of 6.9 per cent in April-December, 2004-05 compared with 5.6 per cent in April-December, 2003-04. Electricity' with a 10.17 per cent weight in the IIP, registered growth of 6.5 per cent, which is higher than the growth in the previous year.

During 2004-05, the infrastructure sector experienced mixed outcomes. The growth rate in some key sectors showed acceleration from the previous year. In particular, strong growth rates have been observed in electricity, railways, ports and new telephone connections. In the first nine months from April to December 2004-05, almost all the key sectors registered higher growth rates compared to the same period in 2003-04.

Monetary Trends and Developments

During the year 2004-05 (up to February 18, 2005), broad money (M_3) grew at a lower rate of 10.8 per cent (net of conversion of Industrial Development Bank into a commercial bank, 10.6 per cent) as compared with 14.4 per cent in the corresponding previous period. M_3 growth on a year-on-year basis, as on February 18, 2005, was 13.0 per cent (net of conversion, 12.8 per cent), as compared with 15.1 per cent last year. The growth of M_3 up to February 18, 2005 is lower than the projected growth of 14.0 per cent indicated in the Annual Policy Statement of the Reserve Bank of India (RBI) for 2004-05. The major components of M_3, viz., currency with public, demand and time deposits with banks registered a lower growth in the current year as compared with the previous year. Among the sources, growth of M_3 in the current year was largely driven by bank credit to commercial sector and net foreign exchange assets (NFA) of the banking sector. During current financial year (up to February 18, 2005), reserve money also grew at a lower rate of 5.8 per cent as compared with 9.4 per cent in the corresponding previous period. This was mainly on account of the lower growth of 10.4 per cent in currency in circulation compared with 14.4 per cent in the corresponding period last year. The year-on-year growth of reserve money as on February 18, 2005 was higher at 14.3 per cent compared with 14.9 per cent on the corresponding date 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 has emerged as the main determinant of reserve money growth. In the current year, NFA grew by 19.0 per cent on top of a 36.1per cent growth in the corresponding previous period. Despite its lower growth, NFA contributed 22.1 per centage points to the growth of reserve money in the current year. In contrast, net RBI credit to the Government declined by 104.5 per cent in the current year on top of a decline of 69.0 per cent in the previous year.

The RBI faced two main challenges in the conduct of the monetary policy during the current year. The first challenge was the carry forward of liquidity of over Rs.81, 000 crore from the previous year. The sharp increase in reserve money in the previous year on account of large build up of excess cash balances by commercial banks towards the close of the previous year further complicated the problem of excess liquidity. The second problem related to the acceleration of inflation beyond 5 per cent envisaged in the annual monetary policy statement. The Government and the RBI have been taking appropriate steps to address the concerns emanating from large capital flows. RBI has been moderating the impact of capital flows through open market sale of Government securities held by it and repo operations under the liquidity adjustment facility (LAF). The depletion of stock of Government securities held by the RBI from Rs.1, 16,444 crore at end- March, 2003 to Rs.44, 217 crore at end-March, 2004 constrained the open market operations of the RBI. To address this issue, Market Stabilisation Scheme (MSS) was introduced effective from April 1, 2004 to augment the stock of Government securities held by the RBI. The ceiling of Rs.60,000 crore fixed for raising treasury bills and dated securities under MSS for the year 2004-05 was raised to Rs.80,000 crore on August 26, 2004, when the amount raised under MSS crossed the threshold limit of Rs.50,000 crore. Liquidity absorption through MSS was Rs. 59,354 (up to February 18, 2005).

The RBI has taken a number of other measures to moderate the growth of money supply. Taking into account the bunching of liquidity due to 7-day minimum tenure of LAF repo, RBI discontinued the auction of 7-day and 14-day reverse repo with an overnight fixed rate repo and reverse repo from November 1, 2004. This has facilitated management of liquidity in a more flexible manner. The cash reserve ratio (CRR) was raised by 50 basis points in two stages to 5.0 per cent. This reduced the liquidity in the banking system by over Rs.9, 000 crore. The decision to raise the CRR was partly for absorbing liquidity in the banking system, but more importantly for moderating inflationary expectations. In addition to these measures, slowdown in capital flows in the current year and a higher credit demand have facilitated to bring down excess liquidity. Though RBI has been absorbing liquidity under MSS and LAF to address the problem of overhang of liquidity, there have been occasions in recent months when RBI injected liquidity through the LAF window, indicating situations of occasional liquidity crunch in the banking system on account of a significant increase in domestic credit. Such injection took place for the first time in the current year on November 8, 2004 (Rs.3,665 crore). The outstanding occasional injection of liquidity varied from a high of Rs.17,235 crore on November 18, 2004 to Rs.440 crore on December 24,2004. Excess liquidity sterilised as on February 18, 2005 was about Rs. 85,319 crore. The amount sterilised under MSS amounted to Rs.59,354 crore, while the net amount absorbed under LAF (reverse-repo) amounted to Rs.25,965 crore. In addition, surplus balances in the Central Government account with the RBI also helped in sterilising excess liquidity from time to time.

Bank Credit

The pick up in bank credit observed from the second quarter of the previous year continued through the current year. Gross bank credit by scheduled commercial banks (SCBs), comprising food and non-food credit, increased by 25.6 per cent (net of conversion, 21.7 per cent) in the current year (up to February 18, 2005) compared with 11.4 per cent in the corresponding period last year. In contrast to the decline of 28.7 per cent witnessed last year, food credit grew by 15.4 per cent in the current year (up to February 18, 2005). Growth of non-food credit up to February 18, 2005 was 30.6 per cent (net of conversion, 26.4 per cent) as compared with an increase of 17.9 per cent in the corresponding previous period. In absolute terms, incremental non-food credit amounted to Rs.2,09,904 crore (net of conversion, Rs.1,77,221 crore) in the current year as compared with Rs. 97,458 crore in the corresponding previous period.

In the current financial year (up to February 18, 2005), investment by SCBs in Government and other approved securities grew at a lower rate of 6.7 per cent (net of conversion, 4.9 per cent) as compared with 23.3 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.

Monetary Policy

The stance of monetary policy as announced in the annual policy statement (May 18, 2004) of the RBI remained the same as in the previous years. The emphasis was on provision of adequate liquidity to meet credit growth to support investment and export demand in the economy, while pursuing an interest rate environment that is conducive to maintaining the momentum of growth and macroeconomic stability.

The annual policy statement had placed the growth of GDP in 2004-05 within a range of 6.5 to 7.0 per cent, on the assumption of sustained growth in industrial sector, normal monsoon and good performance of exports. On the assumption of no significant supply shocks and appropriate management of liquidity, inflation rate in 2004-05, on a point-to-point basis, was placed at around 5.0 per cent. M_3 in 2004-05 was projected to expand by 14.0 per cent. Non-food credit was projected to increase by 16.0 to 16.5 per cent

Contrary to the assumptions underlying the annual policy statement, the south west monsoon turned out to be deficient by 13 per cent in the current year. There was a surge in inflation following the rise in international oil prices. The carry forward of liquidity has compounded the monetary policy management. Taking the above developments into account, the RBI in its mid-term review of the annual policy (October 26, 2004), revised its GDP growth projection in 2004-05 from a range of 6.5 to 7.0 per cent to 6.0 to 6.5 per cent. Inflation on a point to point basis was placed at 6.5 per cent as against 5.0 per cent projected earlier. RBI has not effected any change in its earlier projection of M_3 and aggregate deposit of commercial banks. The projection of long term bank credit was revised to 19.0 per cent from 16.0 to 16.5 per cent projected earlier.

External Sector

India's balance of payments strengthened further in the year 2003-04. In recent years, India's balance of payments has been characterised by surpluses in both the current and capital accounts. After 2002-03, the current account once again recorded a surplus in 2003-04. Despite a trade deficit of US$ 15.5 billion, a larger invisibles surplus of US$ 26.0 billion, aided by buoyant inflows of private transfers and software service exports, helped in recording a current account surplus of US$10.6 billion in 2003-04, equivalent to 1.8 per cent of GDP. During April-September 2004-05, the current account, however, turned deficit due to a large trade deficit.

The capital account also recorded a larger surplus of US$ 20.9 billion in 2003-04 compared to US$ 10.6 billion in 2002-03. Net capital inflows surged accompanied by upgrade of the sovereign credit rating to investment grade. Portfolio flows led the surge supported by accretion to non-resident Indian deposits and other elements of banking capital. While foreign direct investment shows a slight increase over the preceding year's level, short term credits rose in consonance with imports. During April-September 2004-05, capital flows remained robust.

The strong balance of payments position was reflected in a steady accumulation of foreign exchange reserves for the country. During 2003-04 India experienced an accretion of around US$31.4 billion in its foreign exchange reserves, excluding valuation effects with total reserves amounting to US$113 billion at the end of March 2004. As on March 4, 2005, India's total foreign exchange reserves (inclusive of valuation changes, gold, SDR and reserve in IMF were estimated at US$ 137.6 billion.

During 2003-04, the Indian rupee continued to strengthen against the US dollar. Beginning from a nominal value of Rs. 43.93 against the US dollar in April, 2004, the rupee moved to Rs. 43.52 on March 14, 2005. During the year, however, the rupee broadly weakened against other major currencies like the Euro and the Pound Sterling.

According to data published by the DGCI&S, exports registered a robust growth of 21.1 per cent (in dollar value) in 2003-04, on top of a rise of 20.3 per cent in the preceding fiscal. While improved global growth and recovery in world trade aided this strengthening of Indian exports, firming up of domestic economic activity, especially manufacturing sector, provided a supporting base for strong sector specific exports. Recent recovery in international commodity prices, a faster repatriation of export proceeds due to appreciating trend in nominal value of rupee vis-a-vis US dollar and various policy initiatives for export promotion and market diversification also seem to have contributed to this export upturn. Commodity-wise data reveal export growth continued to be broad based, notwithstanding some deceleration in export growth of both commodity group and manufacturing goods. The major contributor to this increase was the manufacturing sector, with exports of engineering goods, chemical and related products, leather and manufactures and gems and jewellery being the main drivers of export in this sector. Destination-wise, while export growth to OECD region and other developing country regions slowed down, growth was strong to Asia and Africa developing country regions with exports to Eastern Europe witnessed a turnaround. Despite some slowdown in the second half, export growth continues to be buoyant in the current financial year, registering an increase of 27.0 per cent in dollar value in April-February 2004-05, substantially higher than the annual target of 16 per cent as well as the rise of 15.5 per cent recorded in the corresponding period of the previous year. Export growth in the 2004-05 so far displays an all round acceleration in growth across major commodity-groups and markets.

Merchandise imports have also displayed strong growth in 2003-04. Imports in dollar terms and on customs basis, increased by 27.3 per cent in 2003-04, on top of a rise of 19.4 per cent in the previous fiscal. Bulk of the increase was contributed by growth in non oil imports, which shot up from 17.0 per cent in 2002-03 to 31.5 per cent in 2003-04 and was largely accounted for by robust increases in imports of food & allied products (mainly edible oils), capital goods, raw materials and manufactured intermediate and consumer goods. The sourcing of imports in 2003-04 showed higher share from regions like OPEC, Eastern Europe and other developing countries (especially from Asia), with share from OECD region being broadly retained. Imports continue to surge in 2004-05, rising by 36.3 per cent in April-February 2004-05 on back of good industrial performance and rising international crude oil prices. The rise has been contributed by a continuing robust growth in non-POL imports of 33.4 per cent and acceleration in POL imports by 44.4 per cent.

The trade deficit, which reflects excess of imports over exports, has been showing a widening trend in the recent years and stood at a high level of US $14.3 billion in 2003-04, given the faster growth of imports over exports during the year. With imports continuing to grow at a relatively higher rate, the trade deficit has increased further in the current fiscal by around 74 per cent and stood at a level of US $23.8 billion in April-February 2004-05.

The Government announced a new Foreign Trade Policy, 2004-09, which aims at doubling India's share in global merchandise trade in a five year timeframe and using trade policy as an effective instrument for economic growth and employment generation. The policy measures contained in the new trade policy include identification of thrust sectors like agriculture, handlooms and handicrafts, gems and jewellery and leather and footwear (with sector specific policy initiative for these sectors), announcement of new schemes like target plus, served from India, Free Trade and warehousing zone scheme and Vishesh Krishi Upaj Yojna, modifications in export promotion schemes and various simplification and rationalization measures. Modifications in current schemes include additional benefits for EOUs/EHTPs/ STPs/BTPs schems, new system of categorizing status holders, further simplification/rationalization of duty neutralization schemes and EPCG scheme, including permission to import second hand capital goods. Policy measures to simplify/rationalize rules and procedures include exemption from furnishing bank guarantee for exporters with minimum turnover, exemption from service tax for all goods and services exported, reduction in number of returns and forms required to be filled and uniform enhancement to 24 months the validity of various licences/entitlements issues under various schemes.

India's external debt was US $ 113.6 billion at end-September 2004 as against US $ 111.8 billion at end-March 2004. While long term debt was 107.1 billion, short term debt amounted to US $ 6.5 billion at end-September 2004. Over the decade, key indicators of external debt improved significantly. Debt to GDP ratio has declined from a high of 38.7 per cent in 1991-92 to 17.6 per cent in 2003-04. Similarly, the debt service to current receipts ratio has improved from 35.3 per cent in 1990-91 to 10.4 per cent (excluding exceptional transactions namely prepayment and redemptions of Resurgent India Bonds) in 2003-04. In terms of indebtedness classification, the World Bank has been classifying India as a less indebted country since 1999.

Social Sector Development

Total Central Government expenditure on social services as a proportion of total expenditure of the Central Government after increasing from 10.2 per cent in 1995-96 to 11.7 per cent in 2002-03, declined to 10.9 per cent in 2004-05 (BE). Similarly, expenditure on social services as a ratio of GDP at current market prices after increasing from 1.5 per cent in 1995-96 to 2 per cent in 2002-03, declined to 1.7 per cent in 2004-05 (BE).

II. DEPARTMENT OF EXPENDITURE

Department of Expenditure is concerned with expenditure related policies of the Government relating to financial rules and regulations and delegation of financial powers, financial sanctions on proposals not covered by delegated powers, review of staffing of Government Establishments, general principles of Government accounting, administration of Central Treasury Rules, State Finances, Plan budget planning and development finance, capital restructuring of public sector undertakings etc.

The highlights of the main activities during the year 2004-05 are as under:—

(i) Task Force for Revision of Procurement Norms to ensure greater transparency, competition, fairness and elimination of discretion in procurement of goods by Government, constituted in September, 2003 under the Chairmanship of Secretary (Expenditure), submitted its Report and follow-up action is in progress.

(ii) Task Force to review the General Financial Rules 1963 was constituted in January, 2004 under the Chairmanship of Shri D.N. Padhi, AS&FA, Ministry of Food and gave its report in August, 2004.

(iii) A Complaint Committee has been constituted as per the guidelines of the Supreme Court for redressing the grievances of women.

(iv) Based on the recommendations of the Expenditure Reforms Commission, approximately 18682 posts have been abolished.

(v) The measures aimed at austerity and fiscal prudence were given continued emphasis vide O.M. dated 24.9.2004.

(vi) The statistical details relating to number of civilian Central Government Employees and the expenditure on salary and allowances etc. were brought out in the 25th issue of brochure for the 2002-2003 in September, 2004.

(vii) Union Government Finance and Appropriation of Accounts (Civil) for 2002-2003 were submitted to the Comptroller & Auditor General of India in March, 2004 and were laid on the Table of the Parliament on 13th July, 2004.

(viii) During the year 2004, the SIU finalized assessment in respect of 9795 sanctioned posts and examined proposals for the creation of 387 posts in 18 offices. The staffing studies resulted in identifying 1364 surplus posts out of the sanction posts strength of 9795 posts.

(ix) Cost Accounts Branch completed costs/pricing studies during January, 2004 to December, 2004.

(x) The Twelfth Finance Commission constituted under the Chairmanship of Dr. C. Rangarajan submitted its recommendations for the next five years 2005-06 to 2009-2010.

(xi) Fiscal Reforms Facility for the States is also being implemented.

(xii) 21 meetings of Public Investment Board were held and 22 projects with a capital outlay of Rs.36915.03 crore were recommended for obtaining CCEA approval.

(xiii) A number of training programmes were conducted by the National Institute of Financial Management.

(xiv) Funds provided to State Governments for implementation of the development schemes under State Plan Schemes.

(xv) Debt Swap Scheme was implemented to help the States by taking advantage on current low interest regime.

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 2004-2005 to achieve these objectives. The details of these changes are given in paragraphs 3.3 and 4.11.

3. During the financial year 2004-2005, 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 2004-2005, 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 2004-2005(upto Dec.04), a total number of 1604 (prov.) Search Warrants were executed, leading to the seizure of assets worth Rs.149.29 crores (prov.) and a total number of 2586 Surveys were conducted resulting in disclosure/surrender of amount of Rs.348.79 crores. From April to September 2004, a total number of 219304 new assessees were added.

6. The Customs and Central Excise Offices also continued their drive vigorously against duty evasion. During the financial year 2004-2005 (upto Dec. 04), a total number of 2988 cases of evasion of Central Excise and 668 cases of evasion of Customs duty were detected, involving duty effect of Rs.1641.80 crores and Rs 809.01 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 2004-2005(upto Dec.04), in 29171 smuggling cases, contraband worth the value of Rs. 573.58 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. Some of the important initiatives taken during the year are given below:-

The disinvestment of Government equity of Public Sector Enterprises will be carried out in accordance with the policy laid down in the National Common Minimum Programme.

Government has decided, in principle, to list large, profitable Public Sector Enterprises (PSEs) on domestic stock exchanges and to selectively sell a minority stake in listed, profitable PSEs while retaining atleast 51% of the shares alongwith full management control so as not to disturb the Public Sector character of the companies.

Government has also decided to constitute a "National Investment Fund" into which the realization from sale of minority shareholding of the Government in profitable PSEs would be channelised. The Fund would be maintained outside the Consolidated Fund of India. The income from the Fund would be used for the following broad investment objectives:-

(i) Investment in social sector projects which promote education, health care and employment;

(ii) Capital investment in selected profitable and revivable Public Sector Enterprises 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 On the recommendations of the Task Force/Policy Group on External Debt Statistics, an External Debt Management Unit (earlier DUES, Debt Unit for External Sector) was set up in the Ministry of Finance, Department of Economic Affairs as the apex Unit for external debt monitoring and management exercises.

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 liasion 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 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 arranges 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 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 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 and Financial market developments. The unit periodically reviews and monitors money supply (M_3), 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.

2. BANKING AND INSURANCE DIVISION

2.1 Banking Division

2.1.1 Organizational and Role

Banking Division is concerned with Government policies, which have a bearing on the working of commercial banks and the term lending institutions. The Division is headed by Secretary (Financial Sector), who is assisted by Additional Secretary (Financial Sector) and two Joint Secretaries and an Economic Adviser.

2.2 Profitability - Public Sector Banks

An analysis of financial position of Public Sector Banks (PSBs) as on 31st March 2003 and 31st March 2004 reveals that all the 27 Public Sector Banks posted net profit aggregating Rs.16,546 crore during the year ended 31 March 2004 as against an aggregate net profit of Rs. 12,296 crore during the year ended 31 March 2003.

The operating profit and net profit of Public Sector Banks as on March 31, 2003 and 2004 is as under :

(Rs .in Crore)

	31st March 2003		31st March 2004	
Bank Group	Operating Profit	Net Profit	Operating Profit	Net Profit
State Bank Group	11,229	4,512	14,363	5,619
Nationalised Banks	18,486	7,784	25,112	10,928
Total for PSBs	**29,715**	**12,296**	**39,475**	**16,546**

SBI Group recorded an operating profit of Rs.14,363 crore during 2003-04, as against Rs.11,229 crore in the previous year, posting an increase of Rs. 3,134 crore.(27.91%). Net profit of the SBI Group for 2003-04 was at Rs. 5,619 crore as against Rs.4,512 crore in 2002-2003, posting an increase of Rs.1,107 crore. (24.52%).

Nationalised Banks had posted a combined operating profit of Rs.25,112 crore during 2003- 2004 as against Rs.18,486 crore in the year ended 31 March 2003 indicating an increase of Rs.6,626 crore (35.83%) over 2002-2003. The net profit was at Rs. 10,928 crore during 2003-2004 as against Rs.7,784 crore in the year ended 31 March 2003; an increase of Rs.3,144 crore (40.37%) over 2002-2003.

The operating profit of Public Sector Banks as a group during the year 2003-2004 was Rs.39,475 crore as against Rs.29,715 crore during the year 2002-2003 representing an increase of Rs.9,760 crore (32.85%). The total net profit of PSBs was Rs.16,546 crore during 2003-2004 as against Rs.12,296 crore during 2002-2003 i.e., an increase of Rs.4,250 crore (34.57%).

Detailed statement showing the Gross and Net profit of Public Sector Banks as on March 31, 2003 and 2004 is given in the **Annexure**.

2.2.1 Working of Indian Banks' branches abroad Structure of Overseas Network of Indian Banks

As on 31st October 2004, nine public sector banks (PNB, SBI, BOB, BOI, Canara Bank, IOB, Indian Bank, Syndicate Bank and UCO Bank) and two private sector banks (Bharat Overseas Bank Ltd. and ICICI Bank Ltd.) are operating in 26 countries with a network of 98 branches. SBI, BOI, BOB, Canara Bank, PNB, Bank of Punjab, ICICI Bank, HDFC Bank and IndusInd Bank have set up 25 Representative Offices at various centres. There are 16 subsidiaries of Indian banks operating in foreign countries. Besides, 6 banks (SBI, BOB, BOI, Canara Bank, CBI and PNB) are also partners in six joint ventures abroad.

2.2.2 Status of opening New Offices

SBI has opened branches in Sydney (Australia), Ruwi (Oman) in April and May 2004 respectively. SBI alongwith Canara Bank has also opened a joint venture bank i.e. Commercial Bank of Moscow.

PNB has opened a branch on July 26,2004 in Kabul, Afganisatan. It has also opened its representative office in Shanghai, China in September 2004.

ICICI Bank Ltd. has opened an Offshore banking unit in Manama (Bahrain) in October 2004. It has also opened its representative office in Dhaka, Bangladesh in August 2004.

Bank of Baroda has opened representative offices in Guan Zhou (China) and Kuala Lumpur (Malaysia) in June and August 2004 respectively.

IndusInd Bank has opened its representative office in London, UK in June 2004.

2.2.3 Status of Closures/Mergers

SBI had closed down its representative office in Sydney, Australia in April 2004.

2.2.4 Working of overseas branches of Indian banks

Ten Indian banks (eight public sector banks and two private sector banks) had overseas presence through 91 branches and 13 subsidiaries, as on March 31, 2004.

ICICI Bank Ltd. opened its first overseas branch at Singapore during the year. Further, 12 Indian banks had set up 21 representative offices and four joint ventures at different overseas centres as on March 31, 2004.

2.2.5 Performance during the year 2003-04

Details of the performance of the overseas branches of Indian banks during the year 2003-04 are furnished below:-

A. Total assets

During the year, the total assets of the overseas branches increased in USD terms, by 23.62% as against a marginal increase of 2.34% in 2002-03 and a reduction of 3.04% in 2001-02. The increase was, however, partly on account of the significant appreciation of currencies of the major overseas centres against

ANNEXURE

(Ref para 2.2)

(RUPEES IN CRORES)

NAME OF THE BANK	NET PROFIT			OPERATING PROFITS		
	2001-02	2002-03	2003-04	2001-02	2002-03	2003-04
ALLAHABAD BANK	80.21	165.99	463.38	407.98	515.83	876.25
ANDHRA BANK	202.27	402.99	463.50	425.38	754.83	930.17
BANK OF BARODA	545.93	772.78	967.00	1309.25	1716.62	2485.30
BANK OF INDIA	508	851.00	1008.32	1412.00	2030.00	2242.00
BANK OF MAHARASHTRA	145.41	222.02	304.54	415.04	520.58	676.49
CANARA BANK	741.40	1018.89	1338.01	1656.23	1997.37	2858.72
CENTRAL BANK OF INDIA	163.30	305.52	618.11	704.36	923.85	1528.93
CORPORATION BANK	308.10	415.99	504.14	622.93	852.52	907.04
DENA BANK	11.36	114.19	230.50	335.39	493.83	710.59
INDIAN BANK	33.22	188.83	405.75	307.15	590.25	802.46
INDIAN OVERSEAS BANK	230.21	416.10	512.76	616.36	794.13	1325.19
ORIENTAL BANK OF COMMERCE	320.56	456.95	686.07	917.10	1163.06	1533.03
PUNJAB & SIND BANK	23.04	4.43	8.89	163.70	280.84	149.61
PUNJAB NATIONAL BANK	562.39	842.20	1108.69	1473.00	2317.30	3120.86
SYNDICATE BANK	250.55	344.13	434.13	355.24	618.79	1054.25
UCO BANK	164.52	207.49	435.42	475.98	624.04	948.41
UNION BANK OF INDIA	314.13	552.69	712.05	869.00	1304.00	1483.00
UNITED BANK OF INDIA	119.04	305.19	315.08	237.00	556.00	613.00
VIJAYA BANK	130.90	196.56	411.31	252.36	432.36	865.64
TOTAL (NATIONALISED BANKS)	**4855.36**	**7783.94**	**10927.65**	**12955.44**	**18486.20**	**25110.94**
STATE BANK OF INDIA	2431.62	3105.00	3681.00	6045.00	7775.00	NA
STATE BANK OF BIKANER & JAIPUR	164.50	203.27	301.52	390.61	440.85	681.35
STATE BANK OF HYDERABAD	226.49	301.40	381.20	600.05	757.95	1014.20
STATE BANK OF INDORE	125.10	200.32	226.26	342.24	421.00	532.23
STATE BANK OF MYSORE	65.90	115.92	176.38	235.00	353.00	NA
STATE BANK OF PATIALA	232.94	322.02	430.36	564.63	739.54	1003.75
STATE BANK OF SAURASHTRA	82.01	92.55	177.39	221.26	286.63	452.76
STATE BANK OF TRAVANCORE	120.93	171.04	244.60	321.36	454.99	700.89
TOTAL (SBI GROUP)	**3449.49**	**4511.52**	**5618.72**	**8720.15**	**11231.97**	**14363.52**
TOTAL (PUBLIC SECTOR BANKS)	**8304.85**	**12295.46**	**16546.37**	**21676.54**	**29717.24**	**39474.46**

USD. During the year, currencies of the four major overseas centres where Indian banks are operating viz. Euro, Pound Sterling, Japanese Yen and Singapore Dollar, appreciated against USD-ranging from 5.07% to 14.18%. Approximately 55% of the total assets of the overseas branches were in these countries.

B. Composition of assets and liabilities

The share of 'advances' in the aggregate assets of the overseas branches increased from 51.79% as on March 31, 2003 to 58.76% as on March 31, 2004. The share of 'inter-branch/inter-bank placements' also increased from 19.66% to 27.69%. The share of investments, on the contrary, declined from 21.71% as on March 31, 2003 to 16% as on March 31, 2004. In respect of components of liabilities, 'inter-branch/inter-bank borrowings' constituted the largest share, which increased from 48.62% as on March 31, 2003 to 50.83% as on March 31, 2004. The share of 'customer deposits', however, declined from 38.80% to 37.56%. The share of 'HO funds also decreased from 9.74% as on March 31, 2003 to 8.62% as on March 31, 2004.

One of the major features of the operations of the overseas branches during the year was the increase in source of funds to the extent of USD 4 billion, of which a major part apparently led to increase in exposure to Indian banks/branches and entities.

C. Growth of assets/liabilities

As regards the rate of growth in the assets during the year 2003-04, 'inter-branch/inter-bank placements' (74.06%) recorded larger growth, rather than core banking activities viz. advances and investments. While investment portfolio recorded a decline of 8.86%, advances registered a growth of 16.36%. Rate of growth in 'inter-branch/inter-bank borrowings' and 'customer deposits' was 29.23% and 19.68% respectively, during 2003-04. The rate of growth in 'HO funds' was 9.39%.

D. Non-performing assets

Gross problem assets (credit plus investments) of the overseas branches recorded an increase of USD 29.35 million (9.01%), during the year and stood at USD 355.22 million as on March 31, 2004. The increase was mainly due to the reclassification of the problem account of Dabhol Power Corporation (phase II) involving an outstanding balance of USD 153.14 million as 'sub-standard' at Nassau (Bahamas) branch, by State Bank of India. The account had been treated as 'standard' by SBI as on March 31, 2003, in violation of the IRACP norms. The account has now been reclassified as 'sub-standard'. The increase in problem credits, however, was moderated by substantial write-off by various banks (aggregating to USD 88.47 million). Cash recovery during the period 2003-04 was only USD 16.87 million. Fresh accretion during the year was USD 181.53 million. As a ratio to customer credits, gross problem credit deteriorated from 3.50% to 3.66% during the year.

The ratio of problem credit (gross) improved for all banks, except State Bank of India. In the case of Indian Bank, the ratio, though improved during the year, was high at 22.71%. Except for Indian Bank, all banks were having a gross problem credit ratio below 5% as on March 31, 2004. Indian Overseas Bank, UCO Bank and Canara Bank, which had gross problem credit ratios above 10% last year, substantially improved the position during the current year, mainly by taking recourse to write-off/up-gradation in major problem accounts (such as Thakral group-Singapore, Silverline group-USA and BSES Kerala Ltd -UK)

As on March 31, 2004, Bahamas and Singapore centres together accounted for 71.94% of the total problem credits of all overseas branches (Bahamas - 46.63% Singapore - 25.31%). Aggregate dues of Thakral Group at Singapore to various banks was reduced from USD 65.55 million to USD 30.28 million due to write-off by all banks involved, except Bank of India.

E. Earnings

The aggregate net profit of the overseas branches increased by 4.84% from USD 58.03 million in 2002-03 to USD 60.84 million in 2003-04, despite the payout of USD 82 million by Bank of India as a result of the judgement of the London High Court against the bank in the case filed by BCCI liquidators. The operating profit of the overseas branches improved by 26.32% from USD 158.37% mio in 2002-03 to USD 200.36 mio in 2003-04. The 'total expenses' of the overseas branches increased by 6.58% (USD 9.39 mio), which was more than off-set by the decline in loan loss provisions by 80.43% (USD 57.18mio) in 2003-04. However, the increase in net profit (4.84%) was not commensurate with the growth in assets (23.62%) and Head Office (HO) funds (9.39%), resulting in decline in Return on Assets from 0.41% in 2002-03 to 0.35% in 2003-04 and decline in the Return on HO funds from 4.23% to 4.06%.

All banks, except Bank of India and Syndicate Bank, recorded improved net profits, during the year. Syndicate Bank has been reporting decline in earnings for the last three years. Three banks viz. Indian Bank, UCO Bank and Indian Overseas Bank which had recorded net losses / marginal profits during the last two years, substantially improved their earnings during the year. As regards Return on Assets, all banks except Bank of India, recorded positive returns. Two banks viz. Bharat Overseas bank Ltd. and Bank of Baroda reported returns of 1% plus.

One branch reported operating loss (USD 0.03 mio) in 2003-04 as compared to six branches (USD 3.99 mio) in 2002-03. Four branches reported net loss in 2003-04 as against 11 branches in 2002-03. Though the number of branches making net loss decreased during the year, the amount involved increased from USD 34.11 mio to USD 74.57 mio.

Aggregate accumulated losses of the overseas branches increased from USD 174.07 mio to USD 181.51 mio. Bank of Baroda accounted for 58.02% (USD 105.32 mio) of the total accumulated losses of all the overseas branches.

F. Contribution of overseas branches to global assets/earnings.

The aggregate share of the overseas branches in the global assets and net profits have been showing a declining trend, though the share of net profit improved marginally during 2003-04. The ratio of overseas assets / global assets declined from 8.26% in 2002-03 to 7.16% in 2003-04. The ratio of overseas profit / global profit marginally improved from 2.29% in 2002-03 to 2.61% in 2003-04.

In respect of individual banks also, a declining trend was observed in most of the cases except Bank of Baroda and Bharat Overseas Bank Ltd. These branches were consistently contributing to the bank's global earnings.

2.3. Measures to strengthen capital

2.3.1 Public Sector Banks Accessing Capital Market

During the year ended 31st March 2004, Indian Overseas Bank, UCO Bank, Vijaya Bank and Bank of Maharashtra infused capital through IPO (Initial public offer) totalling Rs. 950 crore (including premium of Rs. 550 crores), comprising of shares of Rs. 10 each. All these banks issued their shares at a premium. Indian Overseas Bank and Vijaya Bank issued shares at a premium of Rs. 14, UCO Bank at a premium of Rs. 2 and Bank of Maharashtra shares were issued at a premium of Rs. 13. With this, fifteen public sector banks have so far raised equity capital aggregating Rs. 8383.25 crore (including share premium of Rs. 6,106.56 crore).

2.3.2 Government / RBI / SBI equity in Public Sector Banks.

Government of India/ SBI holds the entire equity capital in seven public sector banks. The amount and extent of capital held by Government in nationalised banks, by RBI in SBI and by SBI in the Associate Banks which have raised equity, as on 31st March 2004, are as under :

(Rs. in crore)

Sr.No.	Bank	Post issue share holding			
		Govt. /RBI/SBI	%	Others	%
1	Allahabad Bank	246.71	71.16	99.99	28.84
2	Andhra Bank	250.00	62.50	150.00	37.50
3	Bank of Baroda	196.83	66.83	77.70	33.17
4	Bank of India	339.11	69.47	149.03	30.53
5	Bank of Maharashtra	330.51	76.77	100.01	23.23
6	Canara Bank	300.00	73.17	110.00	26.83
7	Corporation Bank	82.00	57.17	61.44	42.83
8	Dena Bank	146.82	70.99	60.00	29.01
9	Indian Overseas Bank	333.58	61.23	211.22	38.77
10	Oriental Bank of Commerce	128.00	66.48	64.54	33.52
11	Punjab National Bank	212.24	80.00	51.06	20.00
12	Syndicate Bank	346.98	73.52	124.97	26.48
13	UCO Bank	599.36	74.98	200.00	25.02
14	Union Bank of India	279.98	60.85	180.14	39.15
15	Vijaya Bank	233.54	53.87	199.98	46.13
16	State Bank of Bikaner & Jaipur	37.50	75.00	12.50	25.00
17	State Bank of India	314.36	59.73	211.94	40.27
18	State Bank of Indore	17.16	98.05	0.34	1.95
19	State Bank of Mysore	33.24	92.33	2.76	7.67
20	State Bank of Travancore	37.50	75.00	12.50	25.00

The Government of India holds equity above 70% in 11 nationalised banks and between 51% and 70% in 9 nationalised banks.

2.3.3 Return of Capital

During the year 2003-2004 no bank has returned capital to the Government of India.

2.3.4 Capital to Risk Weighted Assets Ratio (CRAR)

The frequency distribution of the CRAR of public sector banks as on 31 March 2004 is as under :

(% of capital to risk weighted assets)

Bank	Negative	0-9	9-10	10-15	Above 15	Total
PSBs	0	0	1	24	2	27
	(0)	(0)	(2)	(23)	(1)	(27)

(Figures in parentheses indicate position as on March 31, 2003)

It is observed that 92.59% of PSBs were congregated in 10 to 15% band reflecting the high CRAR pattern of the group. The combined CRAR of Public Sector Banks improved further and stood strong at 13.21% as at end March 2004. Ten banks reported CRAR above the group average. Corporation Bank (20.33%) reported the highest CRAR.

2.3.5 Issue of subordinated debt to augment Tier II capital

During year ended March 2003 following public sector banks raised subordinated debts to augment their capital indicated as under :-

Sr. No.	Name of the Bank	Amount (Rs. Crore)
1	Punjab National Bank	265
2	Bank of India	250
3	Union Bank	250
4	Central Bank of India	270
5	Syndicate Bank	100
6	Punjab & Sind Bank	45
7	Canara Bank	250
8	UCO Bank	250
9	Syndicate Bank	125
10	Punjab National Bank	500
11	Bank of Baroda	600
12	Bank of India	550
13	IOB	200
14	Dena bank	150

2. 4. Scheme on dissemination of information on Defaulters

The Scheme of Defaulters of Rs. 1 crore and above was introduced by RBI in April 1994 which comprised of lists of non-suit filed accounts and suit-filed accounts. Further, in February 1999, RBI had also introduced a scheme for collection and dissemination of information on cases of wilful default of Rs. 25 lakh and above on a quarterly basis. RBI advised banks/FIs and State Financial Corporations on June 4, 2002 to submit periodical information on suit-filed accounts of Rs. 1 crore and above and suit filed accounts of wilful defaulters of Rs. 25 lakh and above to RBI as well as to Credit Information Bureau (India) Limited (CIBIL) from March 31, 2002 for a period of one year till March 31, 2003 and thereafter to CIBIL only. Accordingly RBI has withdrawn the said lists from its website and the lists are presently available on the website of CIBIL www.cibil.com . However, the periodical data relating to non-suit filed accounts for their defaulter lists would continue to be submitted to RBI only as hitherto.

2.4.1 Defaulters List Scheme (Non-suit filed accounts)

Based on the information collected from banks and notified All-India financial institutions, RBI has disseminated to them, information on the defaulting borrowers (non-suit filed accounts) with outstanding aggregating Rs.1 cr. & above, classified as "Doubtful" and "Loss" for the half year ended September 30, 2003, for their confidential use. The position in this regard is as under:

(Rupees in crore)

		No. of Accounts	Amount
1.	Banks	2,277	18,557.24
2.	Financial Institutions	1,253	13,166.70
	Total	**3,530**	**31,723.94**

II Wilful Defaulters List (Non-suit filed accounts)

The list as on March 31, 2004 has been circulated to banks and FIs for their confidential use. The position in this regard is as under:

(Rupees in crore)

		No. of Accounts	Amount
1.	Banks	861	3212.24
2.	Financial Institutions	67	1236.12
	Total	**928**	**4448.36**

2.5 Guidelines for acknowledgement of transfer/allotment of shares in private sector banks.

As per the existing policy of RBI, any allotment or transfer of shares which will take the aggregate shareholding of an individual or a group to equivalent of five percent and more of the paid up capital of a bank requires acknowledgement of RBI before the bank can effect the allotment or transfer of shares. The bank is required to approach the Reserve Bank of India with all the relevant details for acknowledgement of transfer/allotment of shares after the Board makes a review. The bank is required to await the Reserve Bank's acknowledgement, for approving the registration of the transfers in their books.

2. With a view to streamlining the procedure for obtaining acknowledgment and removing uncertainties for investors including foreign investors (FDI, FII and NRI) in regard to the allotment or transfer of shares and indicate in a transparent manner the broad criteria followed by RBI for the purpose, detailed guidelines were issued. For private sector banks, it has to be ensured through an amendment to the Articles of Association hat no transfer takes place of any acquisition of shares to a level of 5 percent or more of the total paid up capital of the bank unless there is a prior acknowledgement by RBI. Boards of private sector banks are advised to take the guidelines into account and apply in the format prescribed by Reserve Bank while seeking acknowledgement for transfer / allotment of shares.

2.6 Granting of Licence to Yes Bank Ltd. under Section 22 of the Banking Regulation Act, 1949

Reserve Bank of India had in January 1998 set up a Committee to review the Licensing Policy for setting up new private sector banks. Subsequently Reserve Bank of India issued guidelines for entry of new banks in the private sector , on (3rd January 2001). In terms of the guidelines, applications for setting up new banks in the private sector were to be received before March 31, 2001.

The applications received by Reserve bank within the stipulated period were scrutinized by Reserve Bank to ensure prima facie eligibility and thereafter referred to a High Level Advisory Committee set up by Reserve Bank under the Chairmanship of Dr. I.G. Patel, former Governor of Reserve bank. In their Report, (June 29, 2001) the Committee had recommended two applicants as suitable for issue of "in principle" approvals for setting up new banks in private sector. The applications recommended were from Shri Ashok Kapur and two other banking professionals with Rabobank Netherlands, and M/s Kotak Mahindra Finance Ltd., a non-banking finance company, Kotak Mahindra bank Ltd. was granted licence for commencement of banking business under Section 22 (1) of Banking Regulation Act, 1949 on February 6, 2003. The bank commenced operations with effect from March 22,2003 and was included in the Second Schedule to the Reserve Bank of India Act, 1934 with effect from April 12, 2003. Yes Bank Ltd. was granted licence under Section 22 (1) of Banking Regulation Act, 1949 on May 24, 2004 and it commenced operations with effect from August 16, 2004 and included in the Second schedule to the Reserve Bank of India Act, 1934 with effect from August 21, 2004.

2.7 Merger of South Gujarat Local Area Bank Ltd. with Bank of Baroda

The captioned Local Area Bank, which was set up on October 10, 2000 was showing several serious adverse features. In view of the above, RBI recommended to GOI to place the bank under moratorium under Section 45 (1) of Banking Regulation Act, 1949. In exercise of the powers conferred by sub-section (2) of Section 45 of the Banking Regulation Act, 1949, the Government of India issued an order of moratorium dated 13th November, 2003 in respect of the South Gujarat Local Area Bank Ltd for the period from the close of business on 13th November 2003 upto and inclusive of 12th February 2004. The bank was eventually amalgamated with bank of Baroda with effect from June 25, 2004.

2.8 Merger of Global Trust Bank Ltd. with Oriental Bank of Commerce.

The financial position of Global Trust Bank (GTB) started weakening in 2001-02 due to very high exposure to capital market, which had turned into problem assets. There were major irregularities in the sanction of advances. The bank did not comply with prudential norms on income Recognition and Asset Classification (IRAC), in respect of many advances, including certain large advances. As a result of which the bank's deposits were eroded due to inadequate realizable assets to meet the bank's outside liabilities. Thus, the bank failed to comply with the provision of Section 22(3) (a) of the Banking Regulation Act, 1949.

2. GTB was given time to arrange for infusion of capital as also to explore the options of raising required capital or voluntary merger with any domestic bank. GTB's proposal for infusion of capital by a consortium of investors was not found acceptable. The bank was also unable to raise required capital from domestic investors as also voluntarily merge with any domestic bank. The other option available with the Reserve Bank of India was to compulsorily merge the bank under Section 45 of the Banking Regulation Act, 1949.

3. On an application by the Reserve Bank of India, Central Government issued an Order of Moratorium in respect of Global Trust Bank Ltd. on July 24, 2004. The Order of Moratorium was passed by the Central Government in public interest, in the interest of depositors and the banking system. The moratorium was effective from the close of business on 24 July 2004 and inclusive of 23rd October 2004.

4. After the order of moratorium was served, an assessment was made of the available options. The Oriental Bank of Commerce which was interested in expanding its presence in South India had written a letter dated July 7, 2004 to Government of India (Banking Division) and copy endorsed to RBI, indicating that the bank was interested in taking over GTB. Keeping in view the need to take early decision, so as to minimize the period of moratorium, and after taking into account the options available, OBCs perception on the issue was examined keeping in view OBCs financial parameters, its retail network and the synergies as well as strategic advantages. Taking into account the interests of the nearly one million of depositors of GTB, as well as the bank's strengths and weaknesses, the Reserve Bank prepared a draft scheme of amalgamation of GTB with OBC and announced it on the morning of July 26, 2004.

5. On August 8, 2004 all the suggestions / objections to the scheme received upto August 7, 2004 were examined and suitable changes were made in the scheme where considered necessary. On August 9, 2004, the revised scheme was sent for approval of and notification by Central Government who issued notifications on August 13, 2004 with August 14 as the prescribed date.

2.9 (a) 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 bring 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.

2.9.1 b) 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 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 honored without raising unnecessary objections. From the feedback received, it is observed that the Scheme has been operating satisfactorily.

2.10 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 has decided to enact a new legislation - The Financial Companies Regulation Bill, 2000. The proposed bill provides 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, who have given their report to the Hon'ble Speaker on 30th June, 2003.

There was a proposal to modify the existing regulations for the Non-Banking Financial Institutions. However, in view of the recent developments in the Financial Sector, RBI is revisiting the provisions of Financial Companies Regulation Bill (FCRB). Government has requested RBI to expedite their views in the matter at an early date.

2.11 ASSET RECONSTRUCTION COMPANIES

"The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SRFAESI) 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.

2.12 Cash Reserve Ratio (CRR)

As a further step in the direction of moving towards the medium-term objective of reducing the CRR to its statutory minimum of 3.0 per cent, CRR was reduced by 0.25 percentage point from 4.75 per cent to 4.5 per cent effective from the fortnight beginning June 14, 2003, which increased the lendable resources of banks by about Rs.3,500 crore. Further, on a review of liquidity conditions CRR was raised in two stages by 0.25 per cent in each fortnight beginning September 18 and October 2, 2004 which raised CRR from 4.5 per cent to 5.0 per cent thereby reducing the banks lendable resources by about Rs.9,000 crore.

2.12.1 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.

2.12.2 Standing Liquidity Facility

The Reserve Bank at present provides standing liquidity facility to banks in the form of Export Credit Refinance (ECR). ECR facility is provided to scheduled commercial banks to the extent of 15 per cent of the outstanding export credit eligible for refinance as at the end of second preceding fortnight, on the basis of banks' eligible outstanding rupee export credit both at the pre-shipment and post-shipment stages. In order to move further towards phasing out sector-specific standing facilities as also to rationalise the rates at which liquidity is injected into the system, the apportionment of standing facility in to the "normal" and "backstop" facility which stood at one-half (i.e., 50:50) each effective from November 16, 2002, was made available in a ratio of one-third to two-thirds (33:67) from the fortnight beginning December 27, 2003. Following the implementation of the revised Liquidity Adjustment Facility Scheme, effective March 29, 2004, the normal and back-stop facilities were merged and the entire standing liquidity facility is now made available at a single rate, at the repo rate which is presently at 6 per cent. 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.

2.12.3 Liquidity Adjustment Facility (LAF) Scheme:

The liquidity adjustment facility (LAF) introduced in June 2000 in stages, enables RBI to modulate short-term liquidity under varied financial market conditions in order to ensure stable conditions in the overnight call/money market. The LAF operates through reverse repo and repo auctions thereby setting a corridor for the short-term interest rate consistent with monetary policy objectives and has emerged as a flexible instrument for influencing liquidity on a day-to-day basis.

With a view to further enhancing the effectiveness of LAF and facilitating liquidity management in a flexible manner, an Internal Group was formed to revise the LAF. Taking into account the recommendations of the 'Report of the Internal Group on Liquidity Adjustment Facility' and the suggestions from the market participants and experts, the revised LAF scheme came into effect from March 29, 2004. It was operationalised through (i) 7-day fixed rate repo conducted daily and (ii) overnight fixed rate reverse repo conducted daily, on week days. While, the international usage of the term 'repo' and 'reverse repo' was adopted effective October 29, 2004, overnight fixed rate repo and reverse repo were introduced effective November 1, 2004. The auctions of 7-day and 14-day repo (reverse repo by international parlance) were discontinued also from the same day. However, RBI would continue to have the discretion to conduct overnight/longer term reverse repo/repo auctions at fixed rate or at variable rates depending on market conditions and other relevant factors.

2.12.4 Commercial Paper (CP)

In order to further develop the CP market, a Status Paper on CP market in India was placed on the RBI website on July 7, 2004 for inviting comments/suggestions from market participants. Subsequently, the issues were discussed with market participants as also in the Technical Advisory Committee on Money, Foreign Exchange and Government Securities Markets. Accordingly, in the mid-term Review of the Annual Policy Statement for the year 2004-05, three measures namely, reduction in minimum maturity period from 15 days to 7 days, reporting of issuance of CP on the Negotiated Dealing System (NDS) platform by the end of the day and constitution of a Group comprising market participants to rationalize and standardize, wherever possible, various aspects of processing, settlement and documentation of CP issuance with a view to achieving the settlement at least on T+1 basis were announced.

The minimum maturity period of CP has been reduced to 7 days with effect from October 26, 2004. Also, a Group has been formed within FIMMDA to recommend and standardize various market practices with a view to achieving the settlement at least on T+1 basis. Further, RBI has been in the process of building up necessary software to enable reporting of CP deals on NDS platform.

The market for CPs continues to remain buoyant during 2004-05 (upto end-December 2004). Issuances of CP have increased in recent period following large investment interests seen from mutual funds. Further, reduction in stamp duty on CP effective March 1, 2004 has also boosted its issuances. The outstanding amount of CP increased from Rs.9,590 crore in April 2004 to Rs.12,215 crore in mid-January 2005. The discount range on CP moved from a range of 4.66-6.20 per cent to 5.40-6.35 per cent during the period. The weighted average discount rate (WADR) moved up from 4.99 per cent to 5.87 per cent over this period. The spread of WADR between the prime-rated and medium-rated companies declined from 63 basis points to 33 basis points during this period. The most preferred maturity of CP has been periods ranging from "61 to 90 days" and followed by "181 days and above". During the current financial year up to mid-January 2005, finance/ leasing companies accounted for 56 per cent (38 per cent during 2003-04) followed by manufacturing and other companies at 33 per cent (44 per cent during 2003-04) and FIs accounted for remaining 11 per cent (18 per cent during 2003-04).

2.12.5 Bank Rate

The Bank Rate, which was reduced by 0.25 percentage points from 6.25 per cent to 6.0 per cent, with effect from the close of business on April 29, 2003, was kept unchanged.

2.12.6 Repo Rate

Taking into consideration the prevailing macroeconomic and overall monetary conditions, the Reserve Bank raised the repo rate by 25 basis points to 4.75 per cent with effect from October 27, 2004. The spread between the reverse repo and repo rate was reduced by 25 basis points to 125 basis points with effect from October 27, 2004. Accordingly, the repo (liquidity injection) rate under LAF continues to remain at 6.0 per cent.

2.12.7 Deposit Rates

There has been a reduction in term deposit rates of public sector banks from 4.00-7.00 per cent at end-March 2003 to 3.75-6.00 per cent at end-March 2004 and further to 3.50-5.75 per cent at end - December 2004. A number of monetary/interest rate easing measures have been initiated by the Reserve Bank in recent times, which along with benign inflationary conditions, have had a favourable impact over the cost as well as the availability of funds in the commercial banks. Deposit rates have been liberalised over the years. Currently, the commercial banks have full freedom to determine fixed or floating rates to be offered uniformly to all clients on domestic term deposit of 7 days and above as also to determine their own penal interest rate for premature withdrawal. The minimum maturity period of term deposits was reduced to 7 days from 15 days in respect of retail deposits (under Rs. 15 lakh) from November 1, 2004. However, commercial banks can offer differential interest rates on wholesale deposit (over Rs.15 lakh), the minimum maturity of which was reduced to 7 days in April 2001.

2.12.8 Lending Rates

RBI has been taking significant initiatives to foster transparency and competition in credit market. Noting the concerns on the downward stickiness of lending rate and large spreads around Prime Lending Rates, the Reserve Bank in April 2002 had advised banks to announce their maximum and minimum lending rates along with PLR for customer protection and meaningful competition.

Further, in order to enhance transparency in banks' pricing of the loan products, RBI had advised banks to announce a benchmark PLR (BPLR) taking into account (I) actual cost of funds, (ii) operating expenses and (iii) a minimum margin to cover regulatory requirement of provisioning/capital charge and profit margin, with the approval of their Boards to ensure that the PLR truly reflects the actual cost. The BPLR guidelines were suitably modified in keeping with the consultations with Indian Banks Association (IBA) and select banks so as to evolve an operationally flexible system. Subsequently, it was clarified that banks would be free to price their loan products based on time varying term premia and relevant transaction costs. Besides, banks were permitted to price floating rate loan products by using market benchmarks in a transparent manner. IBA has since advised its member banks to announce BPLR keeping in view the operational requirements. Subsequently, the banks have adopted the new system of benchmark PLR. BPLR announced by banks have generally been set at 25-200 basis points below their erstwhile PLRs. The benchmark PLRs of public sector banks stood in the range of 10.25-11.00 per cent in December 2004.

2.12.9 Food Credit

Food credit limits are disbursed by a consortium of 61 banks (SBI, 7 Associate Banks of SBI, 19 other public sector banks, 14 private sector banks and 20 state co-operative banks) through State Bank of India (SBI), the consortium leader, under a `single window' system. The rate of interest (i.e. the average of Prime Lending Rates (PLRs) of five largest banks in the consortium) charged was reduced from 10.95 per cent to 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 27, 2005 was Rs.44,529 crore.

2.12.10 Export Credit

The validity of the reduction in ceiling interest rates on rupee export credit at 250 basis points below PLR on pre-shipment credit up to 180 days and post-shipment credit up to 90 days effective from September 26, 2001 has further been extended up to April 30, 2005. In pursuance of the policy of deregulation of interest rates on export credit, with effect from May 1, 2003, the interest rates beyond 180 days for pre-shipment credit and beyond 90 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 Rs.1,10.921 crore during July-June, 2001-02 to Rs.1,37,689 crore during July-June, 2002-03 and at post-shipment stage from Rs.1,13,624 crore during July-June, 2001-02 to Rs.1,34,705 crore during July-June, 2002-03

2.12.11 Housing

Based on data received from select banks accounting for 90 per cent of total credit, bank credit to housing increased by Rs.15,394 crore or 42 per cent during 2003-04. During the current financial year (up to October) outstanding credit to housing increased by Rs.16,088 crore or 31 per cent over its end-March level. Other priority sectors, comprising of inter alia housing and small road transport operators, also recorded a high growth of Rs.29,741 crore or about 38 per cent during 2003-04. During the current financial year (up to October) credit under this category increased by Rs.13,592 crore or 12.7 per cent. The Reserve Bank in its Mid-Term Review of Annual Policy for the year 2004-05 enhanced the ceiling for reckoning under priority sector for bank's direct finance to housing from Rs.10 lakh in rural and semi-urban areas to Rs.15 lakh, irrespective of location. However, considering the vigorous growth in housing loans, as temporary counter cyclical measure for risk containment, the Mid-Term Review also announced the hike in risk weight on housing loans from 50 per cent to 75 per cent.

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

The captioned Report, prepared by the professional staff of the Reserve bank under the guidance of the then Deputy Governor, Dr. Rakesh Mohan, was put in public domain by the Reserve Bank in December 2004. The Report provides current status and a brief account of the progress in respect of the recommendations of the 11 Advisory/Technical Groups of the Standing Committee on International Financial Standards and Codes, monitors new developments in these areas since the publication of the earlier reports, with a view to further national positioning in this regard, and suggests a future agenda in respect of progress on International Financial Standards and Codes. The Report has been prepared with a view to stimulating further debate on this subject and to improve public awareness. The Report discusses a range of legal, institutional and regulatory reform issues covering all areas identified by the Financial Stability Forum. These include 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.

2.12.12 Tea Industry

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.

2.12.13 Coffee Growers

Coffee growers continued to face the problems of low prices, even as the prices realised during the year 2004-05 were higher than that realised 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.

2.12.14 Tobacco Dealers

Some of the tobacco dealers were yet to come out of the problems 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 form 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.

2.12.15 Infrastructure financing

Based on the recommendations of the 13th Conference of State Finance Secretaries organised by Reserve Bank in January 2004, a Working Group with representatives from Central Government, State Governments and Reserve Bank of India and banks/financial institutions was constituted to suggest specific credit enhancement instruments which State Governments could offer for the infrastructure projects undertaken by State PSUs and private sector under public private partnerships. The draft report of the group is under preparation.

2.12.16 Bank finance to NBFCs

Earlier banks were precluded from granting finance against existing assets whether by way of term loans for purchase of such assets or by way of finance to leasing companies for purchase and re-lease of such assets. In November 2004, in the light of the experience gained by NBFCs in financing second hand assets, banks were allowed to extend finance to NBFCs against second hand assets financed by them. Banks were also allowed to extend financial assistance to the customers directly for purchase of second hand assets.

2.12.17 Small Scale Industries (SSI) Sector

Small Scale Industries (SSIs) as also ancillary units are generally defined as the industrial units engaged in the manufacture, processing or preservation of goods and whose 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. Ministry of SSI, Government of India has enhanced the above limit of Rs.1 crore to Rs.5 crore in respect of certain specified items under hosiery, hand tools, drugs & pharmaceuticals, stationery items & sports goods for defining them as SSIs. Ministry of SSI, Government of India has been de-reserving items from the list of items reserved for exclusive manufacture in the small-scale industries sector. With the de-reservation of 85 items from the above list by the Ministry of SSI, Government of India, the number of items reserved for exclusive manufacture in the small-scale industries sector stood at 605 as on October 20, 2004.

Although, there is no sub-target stipulated for lending to SSI sector by the domestic commercial banks, the domestic banks have been advised to ensure that out of their total funds lent to SSI sector, at least 40% should be made available to units with investment in plant and machinery up to Rs.5 lakh and 20% should be made available to units with investment in plant and machinery between Rs.5 and Rs.25 lakh. A sub-target of 10% of Net Bank Credit has been stipulated for lending to SSI sector by foreign banks operating in India.

Reserve Bank of India has been initiating various steps from time to time to ensure adequate and timely flow of credit to Small Scale Industries (SSI) sector. Two recent measures in this regard are as under:

- Banks have been advised to enhance the composite loan limit from Rs.50 lakh to Rs.1 crore in order to enable the SSI entrepreneur to avail of the their working capital and term loan requirement through "Single Window".
- In order to encourage securitisation of loans to SSI sector, it has been decided that investments made by banks in securitised assets representing direct lending to the SSI sector would be treated as their direct lending to SSI sector under priority sector, provided it satisfies the following conditions:

a) The pooled assets represent direct loans to SSI sector which are reckoned under priority sector; and

b) The securitised loans are originated by banks/financial institutions.

Further as suggested by the Working Group on Flow of Credit to SSI Sector (Ganguly Working Group), banks have been advised to implement the following recommendations:

- adoption of cluster based approach for financing SME sector;
- sponsoring specific projects as well as widely publicizing successful working models of NGOs by Lead Banks which service small and tiny industries and individual entrepreneurs;
- sanctioning of higher working capital limits by banks operating in the North East region to SSIs, based on their commercial judgement due to the peculiar situation of hilly terrain and frequent floods causing hindrance in the transportation system; and
- exploring new instruments by banks for promoting rural industry and to improve the flow of credit to rural artisans, rural industries and rural entrepreneurs.

2.12.18 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 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 the central and 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 Urban Local Bodies (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. A 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 banks under the scheme during the years 2001-02,2002-03, 2003-04 & 2004-05 (up to September 2004) is as under: -

(Rs. in lakhs)

Year	Sanction		Disbursement	
	No.	Amount	No.	Amount
2001-02	91,504	28,181.63	65,610	19,526.46
2002-03	81,912	24,026.70	67,353	19,262.71
2003-04	73,887	22,756.45	59,648	17,439.73
2004-05 (up to Sept. 2004)	24,370	7,314.66	18,525	5,244.15

As reported by scheduled commercial banks

2.12.19 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 onwards the scheme is being implemented throughout 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-Eastern states the eligible age group is from 18-40. There is a 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. 40,000/ per annum and income of parents of the beneficiaries also shall not exceed Rs. 40,000/-. 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. He should have passed at least eighth standard. 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. 7,500/- in States/ UTs other than in the North Eastern Region. In the seven states in North East the ceiling on subsidy amount payable will be Rs.15,000/-. This has been extended to Sikkim, Himachal Pradesh, Jammu and Kashmir and Uttaranchal. Hence the margin to be brought in by the borrower will vary from 5% to 16.25% of the project cost. 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. Residency criteria for married men in Meghalaya has been relaxed in line with the married women in the rest of the country with effect from August 11, 2003.

Self Help Groups have been considered for financing under the Prime Minister's Rozgar Yojana (PMRY) with effect from December 8, 2003, provided educated unemployed youth satisfying the eligibility criteria laid down under the scheme volunteer to form SHG to set up self-employed ventures (Common Economic Activity). The banks have also been advised that:

a. Membership of the group may consist of 5-20 educated unemployed youth.

b. There is no upper ceiling on loan.

c. Loan may be provided as per individual eligibility taking into account the requirement of the project.

d. SHG may undertake common economic activity for which loan is sanctioned without resorting to onward lending to its members.

e. Subsidy may be provided to the SHG as per the eligibility of individual members taking into account relaxation provided in North Eastern States, Uttaranchal, Himachal Pradesh and Jammu & Kashmir.

f. Required margin money contribution (i.e. subsidy and margin to be equal to 20 per cent of the project cost) should be brought in by the SHG collectively.

g. The exemption limit for obtention of collateral security will be Rs. 5 lakh per borrowal account for projects under industry sector. Exemption from collateral will be limited to an amount of Rs. 1 lakh per member of SHG for projects under Service & Business Sectors. Banks may consider enhancement in limit of exemption of collateral in deserving cases.

h. Implementing agencies may decide the necessity for pre-disbursal training for all the members/majority of the members in the group.

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. For industry sector, projects up to Rs. 2 lakh (loan ceiling under PMRY) are eligible for exemption/obtention of collateral security. For partnership projects in the industry sector, the exemption limit for obtention of collateral security will be Rs. 5 lakh per borrowal account.

The performance under the scheme during the last three years is as under:

(Amount in lakhs)

Year	Loan Sanctioned		Loan Disbursed	
	No.	Amount	No.	Amount
2001-2002	2,37,392	1,53,918	1,89,860	1,18,480
2002-2003	2,28,031	1,49,699	1,90,521	1,19,847
2003-2004	2,55,262	1,62,470	1,69,735	1,04,149

2.12.20 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 in 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 by public sector banks has steadily increased from Rs. 5155.22 crore in 2002-2003 to Rs. 6645.17 crore in 2003-2004.

2.12.21 Development in the North Eastern States

The performance by all Scheduled Commercial Banks (SCBs) under SGSY & SJSRY in the North Eastern States during the year ended March 2002,2003 & 2004 is indicated below:

Swarnjayanti Gram Swarozgar Yojana (SGSY)

(Amount Rs. in lakh)

Year	TOTAL LOANS DISBURSED	TOTAL AMOUNT DISBURSED
2001-02	10,492	1,151.71
2002-03	19,960	1,781.89
2003-04	32,914	2,532.79

Source: As reported by scheduled commercial banks

Swarna Jayanti Shahari Rozgar Yojana (SJSRY)

(Amount in lakhs)

Year	Total Loan Sanctioned		Total Loan Disbursed	
	No.	Amount	No.	Amount
2001-02	2,891	1,944.51	2,597	1,730.62
2002-03	3,724	1,715.72	3,415	1,563.95
2003-04	3,723	1,706.11	3,676	1,611.20

Source: As reported by scheduled commercial banks

Prime Minister's Rozgar Yojana (PMRY)

(Amount in lakhs)

Year	Total Loan Sanctioned		Total Loan Disbursed	
	No. of A/c	Amount	No. of A/c	Amount
2001-2002	7,019	5,465.23	2,778	1,848.27
2002-2003	8,439	6,883.07	6,595	5,115.08
2003-2004	12,129	8,636.87	7,368	5,471.86
2004-2005 (up to January 2005)	2,021	1,392.53	1,225	711.6

2.13 National Housing Bank

2.13.1 RESOURCES

The National Housing Bank(NHB) 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, 2003-June, 2004], resources were raised by issuing bonds as under:

Capital Gains Bonds:

The Bank continued to mobilise funds by issuing Capital Gains 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) and an amount of Rs.2390.04 crore was mobilised.

Taxable Bonds:

The Bank mobilised a sum of Rs.500 crore by issuing Priority Sector Floating Rate Taxable Bonds, having a tenor of five years, in June 2004. The Bonds have been floated at a spread of 60 bps over the 1 year GOI (semi-annual) benchmark (as set on <INBMK=F3> page of Reuters). The Bank also mobilised Rs. 50 crore in September, 2003 by issuing bonds with a tenor of seven years carrying an interest rate of 5.35% per annum.

Tax Free Bonds

An amount of Rs. 50 crore was mobilized at a rate of 4.75 % with tenure of 10 years with a put/call option of 7 years. Apart from raising low cost funds, the Bank also endeavoured to reduce the cost of the existing liabilities by way of early repayment or restructuring of payment terms as detailed below:

Borrowings from RBI under Long Term Operations Fund

An amount of Rs.125 crore was prepaid to the Reserve Bank of India in May, 2004, in order to reduce the cost of outstanding liabilities.

Loan from Banks and FIs

The loans aggregating to Rs. 400 crore availed from Banks/ Financial Institutions were repriced during the year in order to reduce the cost of funds.

Developments during July-October, 2003

The Bank further mobilized Rs.2793.05 crore during the 6 month period July-December, 2004. Out of this, Rs.1578.50 crore has been mobilized through Capital Gains Bonds at three different coupon rates - 5.35% (for amount invested upto Rs. 1 crore), 5.45%

(for amount invested Rs. 1 crore and above) both with a tenor of 5 years (with put/call option at the end of third year) and 5.50% with a tenor of 7 years (with put/call option at the end of 5 years). NHB mobilized the allocated amount of Rs.964.55.00 crore through commercial paper and Rs. 250 crore through Priority sector Taxable bonds.

2.13.2 DEPLOYMENT

A. Refinance: During the year ended 30th June, 2004, refinance aggregating Rs.3252.89 crore was released, as against Rs.2709.72 crore during the corresponding period last year registering a growth of 20.05%. During year 2003-04, refinance assistance of Rs. 1700.88 crore was made in respect of housing loans disbursed by the Primary Lending Institutions (PLIs) under the Golden Jubilee Rural Housing Finance Scheme (GJRHFS). This constituted 52.29% of the total refinance disbursement of Rs.3252.89 crore during the year. To promote rural housing, the Bank introduced an interest concession of 25 basis points in September 2003, for refinance in respect of rural housing loans disbursed by the PLIs under the scheme.

Introduction of 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 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. The salient features of this scheme are:

- The HFC must comply with all the eligibility conditions of the Refinance Scheme and must have minimum H4 rating as per the Bank's Internal Credit Rating Model.
- The assistance under this scheme may be drawn for a minimum period of 15 days and in multiples thereof with a maximum period not exceeding 90 days.
- The loan availed shall be repayable in one bullet installment along with accrued interest at the end of the term.
- The loan to be provided under this scheme is unsecured.
- The rate of interest under the scheme is as under :

Repayment period	Fixed Rate of interest*
Upto 45 days	5.50%
46 days to 90 days	5.60%

** Concession under GJRHRS not available*

Modifications in Refinance Scheme for Apex Co-operative Housing Federations (ACHFS)

During the year 2003-04, the Refinance Scheme applicable to ACHFS was modified, inter alia, to introduce maturity linked interest rates. In order to align them with the general market movements of the industry, this year the scheme was further modified to introduce pricing of refinance based on their recovery performance. The bare outlines of the modifications are

- The scope of the scheme has been extended to include loans given directly to individuals in addition to loans given through primary societies as eligible for being refinanced under the scheme.
- As per the earlier scheme, an ACHFS to be eligible for refinance must have 'A' or 'B' class audit classification for the last three years. It was observed that few states did not follow this method of audit classification. Accordingly, fulfillment of this criterion in such states, where the system of awarding audit classification is not prevalent, was dispensed with.
- The earlier eligibility criteria of declaration of dividends during three out of five preceding years was replaced with the criteria of being a profit making institution for preceding three years.
- For the purpose of refinance, ACHFS are classified into two categories based on their recovery performance viz. Category I (with recovery of 75% and above) and Category II (with recovery of not less than 60% with an increase in recovery performance of at least 5% over the previous years level in each of the last two years). The interest rate applicable to Category II ACHFS will be 0.50% more than that charged to Category I ACHFS.

Developments during July-December 2004

The Bank disbursed Rs.4207.68 crore during the 6 month period July-December 2004. At the end of December 2004 the cumulative refinance disbursal of NHB stood at Rs.17432.94 crore. Further, pursuant to the announcement made by Hon'ble Finance Minister in his budget speech, an additional concession of 25 basis points for its refinance under the Golden Jubilee Rural Housing Finance Scheme was made available to PLIs. As a result, now refinance for loans under GJRHFS is now provided at 50 basis points less than the normal refinance rates.

B. Project Finance: During the year 2003-04, the Bank approved 19 projects having total project cost of Rs.111.26 crore and loan component of Rs.83.80 crore and disbursed Rs. 44.49 crore (including the amount lent from the Special Fund and the assistance provided to Gujarat earthquake victims) as direct finance.

Project Finance Loan Policy: With a focus on broadening the project finance portfolio of the bank, the 'Project Finance Loan Policy' was introduced in September 2003. The policy introduced an Internal Credit Rating Model (ICRM).

Developments during July-December 2004

During the half year, project finance of Rs 125.60 crores was sanctioned for 11 projects having a total cost of Rs 171.26 crores. An amount of Rs 16.50 crores was disbursed during this period. The project Finance policy was reviewed and reoriented and has been further broadened to increase the scope of Bank's lending under project finance, bringing to its ambit reputed private sector developers for township and housing development, Micro Finance Institutions, Joint Ventures, Employee Housing for corporates and short term lending to public development agencies. The rates of interest were also restructured so as to make them market related.

2.13.3 REGULATION & SUPERVISION

A. Regulatory Issues

Having considered it necessary in public interest and for the purpose of regulating the housing finance system, the Bank issued the following Directions to the housing finance companies, during the year 2003-04:

- To maintain uniformity in the interest rate payable on repatriable deposits accepted from the non-resident Indians by the various players in the financial system, the Bank advised HFCs in September 2003 that the interest rate payable by them on such deposits should be the same as is payable by the scheduled commercial banks on these deposits from time to time.
- Considering the fact that financing of real estate forms an integral part of the business of a HFC, the ceiling on

investments by a HFC in real estate except for its own use was raised from 10% of a HFC's owned fund to 20% of a HFC's capital fund as on March 31 of the previous year subject to the stipulation that the additional limit would be permissible only for investments in residential units.

- In order to align the investment classification and inter-class transfer norms of HFCs with those applicable to the non-banking financial companies (NBFCs), the Bank amended the Housing Finance Companies (NHB) Directions 2001 regarding the prudential norms relating to classification and valuation of investments This amendment interalia specifies that the investments in securities shall be classified into current and long term at the time of making each investment and that there shall be no inter-class transfer from current to long term or vice versa on ad-hoc basis and if warranted, the inter class transfer can be effected only at the beginning of each half year.

- During the year, the Bank also advised HFCs that they should not sanction loans to State Government Undertakings/Special Purpose Vehicles (SPVs) for any project solely on the basis of guarantees extended by the State Governments and instead sanction loans only after a through appraisal of the project regarding identification of risks, risk mitigation measures, financial viability of the project and the creditworthiness of the borrower etc. Similarly, in respect of the housing/infrastructure projects, HFCs have been advised to undertake due diligence on the viability of the projects.

- During the period from July to December, 2004, the Bank issued the "Know Your Customer" guidelines to the HFCs to put in place systems and procedures to help mitigate and control incidence of financial frauds, fidelity, money laundering and other suspicious activities to safeguard HFCs from being unwittingly used for transfer of funds derived from criminal activity etc. in the context of the Prevention of Money Laundering Act, 2002

Registration of Housing Finance Companies u/ Section 29A of the National Housing Bank Act, 1987

Till the end of June 2004, the Bank had received 165 applications from HFCs for granting of Certificate of Registration (COR). Of this, 46 HFCs have been granted COR and applications received from 106 HFCs were rejected. In another 6 cases, show cause notices have been issued as to why their applications should not be rejected. In 7 cases, the COR granted earlier were cancelled as these HFCs either went out of the housing finance business or due to non compliance with the conditions subject to which the COR were issued. During the six months period from July to December 2004 Certificate of Registration was granted to one more HFC and applications of 6 companies were rejected. The certificate of registration granted to one HFC earlier was cancelled. Thus, the number of HFCs registered with NHB as at the end of December, 2004 stood at 46.

Co-ordination with other Regulatory Authorities

The Bank's officers continued to attend State Level Co-ordination Committee Meetings convened by the Reserve Bank of India during the year to ensure co-ordination with RBI and other Regulators for effective supervision of the HFCs. Central Government, at NHB's request, notified 23 Housing Finance Companies, registered with NHB as financial institutions for the purpose of Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest [SARFAESI] Act, 2002.

B. Supervisory Issues

During the year, the Bank appointed (on retainership basis) Company Secretaries (CS) for gathering Market Intelligence in various States where the office of the Registrar of Companies is situated. As on June 30, 2004, 15 Company Secretaries have been appointed for the purpose of monitoring the activities of the HFCs at the field level. Further, these Company Secretaries have been advised to gather information specifically with respect to the HFCs whose application for registration has been rejected and the HFCs who have not applied for registration. This arrangement has been introduced with effect from September 2003.

Penal action for non-maintenance of requisite level of liquid assets

Bank continued to view seriously non-adherence to its directions regarding maintenance of requisite level of liquid assets for public deposits mobilised by HFCs. Action has been initiated for collection of penal interest wherever necessary for non-maintenance of required level of liquid assets as per the provisions of the National Housing Bank Act, 1987 in line with the policy adopted by the Bank in this regard. Similarly, monetary penalty has also been introduced for any contravention of the provisions of the NHB Act and the Housing Finance Companies(NHB) Directions, 2001 issued there under. In order to assess the financial position of housing finance companies and verify their compliance with the Directions issued by NHB, the Bank carried out 39 on-site inspections during 2003-04 as compared to 29 inspections undertaken last year. During the six month period, July-December 2004, another 5 HFCs were inspected.

2.13.4 PROMOTION & DEVELOPMENT

Equity Participation by NHB

At the beginning of the year, the Bank had equity participation in Five HFCs. However, continuing the last year's trend of merger of bank sponsored HFCs with their parent organisations, NHB divested its entire holding in Vibank Housing Finance Limited, consequent to its plans of merger with Vijaya Bank. There was no fresh equity participation by the bank during the year.

Setting up of 'Fraud Cell'

In order to identify the causative factors behind frauds of housing loans in HFCs, the Bank has set up a 'Fraud Cell' to collect from HFCs information regarding frauds on housing loans generated by them. This information is collected on a regular basis. The information collected is analysed and inferences regarding the causative factors are shared among all HFCs and also with RBI as a part of preventive measure.

2.13.5 TRAINING

As a capacity building measure in the housing finance sector, the Bank organises various training programmes on matters related to housing finance. These programmes are attended by officials of housing finance companies, banks, cooperatives, public housing agencies and institutional investors of the sector. Both in-house and external faculty share their knowledge with the participants. The bank conducted twelve such training programmes during the year 2003-04 and more than 250 officers from various Housing Finance Companies and Banks participated in these programmes. The programmes addressed issues related to general awareness on housing finance and specialised topics such as Regulatory framework for housing finance, Securitisation, Legal issues in Housing, SARFAESI Act, Risk Management etc. Apart from conducting programmes, Bank also provided faculty support to Banks, HFCs and National Co-operative of Housing Federation for conducting training programmes for their personnel. During July-December, 2004, the Bank organised four programmes for personnel of HFCs and Banks besides conducting one induction training programme for its newly recruited officers.

2.13.6 GOLDEN JUBILEE RURAL HOUSING FINANCE SCHEME

In order to facilitate housing in rural areas and promote housing finance in the rural sector, the Government has introduced the Golden Jubilee Rural Housing Finance Scheme in the year 1997.

There has been encouraging performance under the scheme which continues to benefit increasing number of rural households. This can be assessed by the number of units financed under the scheme. During the year 2003-04, the Government of India had set a target of financing 2, 50,000 units against which 2, 43,753 lakh units were financed by the primary lending institutions. Achievement of various categories of lending institutions is as follows:

(Number of dwelling units)

Category of Institutions	Target	Achievement
Banks	1,19,275	1,71,180
Housing Finance Companies	1,26,000	71,697
Others including Co-operative sector institutions	4,725	876
TOTAL	2,50,000	2,43,753

Up to the year ended 31st March, 2004, against the cumulative target of 10.75 lakh units to be financed, the achievement had been 10.86 lakh units. For the year 2004-05, target of financing 2, 50,000 units has been set by the Government of India. During July-December 2004, 1,70,205 units have been financed by primary lending institutions as against the annual target of 2,50,000 units.

2.13.7 SECURITIZATION

Ten RMBS issuances aggregating to Rs.663.92 crore have been brought out till 30th June, 2004, with the Bank assuming the role of Trustee (to the Special Purpose Vehicle Trusts) in the transactions involving individual home loans of six HFCs viz. Housing Development Finance Corporation, LIC Home Finance Ltd., Canfin Homes Ltd., BOB Housing Finance Ltd., Dewan Housing Finance Corporation Ltd. and BHW Birla Home Finance Ltd., and one Scheduled Commercial Bank, viz. Andhra Bank.

New RMBS Issuances

Further four RMBS issues aggregating to Rs. 218.66 crore were brought out during the year involving individual home loans of CanFin Homes Ltd. (CFHL), Andhra Bank (AB), Dewan Housing Finance Corporation Ltd. (DHFL) and Birla Home Finance Ltd. (BHFL). The issue of Birla Home Finance Ltd. was the first issue by the Bank where the PTCs (Senior Class) were issued at par with a premium pricing. This product is an innovation in the industry.

The Bank also formulated an RMBS Policy, so as to ensure minimum level of standards and unambiguity in the RMBS issues brought out by it. The Policy details the entire gamut of activities to be taken up by NHB and also sets forth guidelines for the same. The Bank assumes the responsibility of the Trustee for RMBS issues to ensure transfer, payment and timely servicing to the investors in the PTCs. The Bank also has the mandate to invest in its own issues of RMBS. Recognising the dual role required to be played by the Bank, i.e. of a Trustee as well as an investor, the Bank set up a Committee, "RMBS Trust Supervision Committee", under the Chairmanship of a retired High Court Judge to supervise the activities of the Trust periodically in respect of MBS issues. Further, the Bank has also initiated the process of introducing Credit Enhancement measures such as Guaranteeing the senior portion of the RMBS and Financial Support for subordinate RMBS by way of refinance etc. to facilitate more MBS issues by HFCs and Banks.

Coordination with RBI regarding policy issues pertaining to RMBS

At the Bank's initiative, RBI has advised Banks and Financial Institutions that the risk weight on investment by Banks and Financial Institutions in RMBS originated by another Bank would attract a risk weight of 50%. Earlier, this concession was available only to RMBS issues originated by HFCs regulated and supervised by the Bank.

2.14 Priority Sector Lending

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 20.96 per cent from Rs. 203095 crore as on the last reporting Friday of March 2003 to Rs. 245672 crore as on the last reporting Friday of March 2004. At this level, priority sector advances formed 43.96 per cent of Net Bank Credit (NBC) as on the last reporting Friday of March 2004. While other priority sector advances registered the maximum rise (33 per cent), direct and indirect advances to agriculture, taken together registered an increase of Rs. 12680 crore (17.3 per cent). Advances to agriculture constituted 15.4 per cent of NBC as on the last reporting Friday of March 2004.

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.**

2.14.1 Gender Issues/ 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 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 4.71% as at the end of March 2004. As on September 2004, all public sector banks have achieved in aggregate the target of 5% of net bank credit. In addition, there has been progress in regard to establishment of women cells at banks' 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 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 Sawrozgar 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 12,95,110 as on December 2004 and the cumulative disbursement of bank loans to these SHGs stood at Rs.5,090.61 crore. More than ninety per cent of the groups credit linked to banks are exclusive women groups.

5. With a view to encouraging women to organize co-operative 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 112 Mahila banks .

2.14.2 Activities undertaken for disability Sector.

Activities undertaken for the welfare of the persons with disabilities under Government sponsored schemes.

Under the scheme of Swarna Jayanti Shahari Swarozgar Yojana (SJSRY) gainful employment is provided to the urban

employed or under employed poor through encouraging the setting up of self employment ventures or provision for wage employment. There is a special provision of 3% for disabled people under the scheme.

Under the scheme of Swarnajayanti Gram swarozgar Yojana (SGSY) the objective is to bring every assisted family above the poverty line by ensuring appreciable sustained level of income over a period of time. SGSY scheme is to give particular focus to vulnerable groups among the rural poor. The disabled will account for 3% of the total swarozgaris assisted.

Under the Prime Minister's Rozgar Yojana (PMRY) the disabled/ physically handicapped have also been assisted. The number of loans disbursed to the disabled persons under the above schemes during the year 2003-04 are as under :

Name of the Scheme	No. of loan disbursed
SJSRY	836
SGSY	8,623
PMRY	1,243

2.15 REPRESENTATION OF SCHEDULED CASTES/ SCHEDULED TRIBES/OTHER BACKWARD CLASSES/EX-SERVICEMEN/PHYSICALLY HANDICAPPED IN PUBLIC SECTOR BANKS/ FINANCIAL INSTITUTIONS.

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, Industrial Investment 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 31.12.2004 was as under : -

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

Category	Total No. of Employees	Number of Employees belonging to		
		SC	ST	OBCs*
Officers	2,46,471	36,914	14,489	5,254
Clerks	3,61,476	58,421	18,358	10,892
Sub-Staff	1,51,102	38,350	10,607	33,722
Sweepers	41,120	22,500	2,588	2,832
Total	**8,00,169**	**1,56,185**	**46,042**	**52,700**

* Employed after 8.9.1993.

2. Ex-Servicemen

Category	Total No. of Ex-Servicemen Employed
Officers	1,991
Clerks	9,964
Sub-Staff	9,900
Sweepers	48
Total	**21,903**

3. Physically Handicapped

Category	Visually Handicapped	Hearing Impaired and Dumb	Orthopaedically Handicapped	Total
Officers	77	75	1,833	1,987
Clerks	542	694	4,161	5,397
Sub-Staff	127	234	1,575	1,910
Sweepers	18	26	172	216
Total	**764**	**1,029**	**7,741**	**9,510**

2.16 REGIONAL RURAL BANKS :

Regional Rural Bank (RRBs) have been established since, 1975 under the provisions of the 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 agricultural sector. As on 31 March 2004, 196 RRBs were functioning in 519 districts in the country with a network of 14,446 branches. Most of the branches of the RRBs, constituting more than one third of the total rural branches of all the Scheduled commercial banks, operate in rural areas.

The RRBs are jointly owned by the Government of India, the concerned State Government 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 comprising one or two districts in the state. The RRBs grant loans and advances mostly to small and marginal farmers, agricultural labourers and rural artisans.

2.16.1 Deposits and Advances :

The deposit base of RRBs improved by 12.48 per cent from Rs.50,098.33 crore as on 31st March, 2003 to Rs.56,350.34 crore as on 31st March, 2004. The loans disbursed by RRBs as on 31st March, 2004 aggregated to Rs.15,475.86 crore as against Rs.12,640.00 crore in the previous year, registering a growth of 22.43 per cent.

2.16.2 Financial Results :

The financial results of the year 2003-04 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 156 in the previous year to 163 as on 31st March, 2004. As against 156 RRBs in the previous year earning a profit of Rs.733.96 crore, 163 RRBs have earned a profit of Rs.925.79 crore during the year 2003-04. Only 33 RRBs have incurred losses to the extent of Rs.182.86 crore.

The Non-Performing Assets of these banks registered a significant decline from 43.1% as on 31st March 1996 to 12.61% as on 31st March, 2004. Further, the percentage of recovery to demand, which stood at 57.1% as on 30 June, 1997, 60.4% as on 30 June, 1998 and 71.52% as on June 2002 further improved to 73.53% as on 30 June, 2003.

All the 196 RRBs participated in the Self-help Group (SHG) bank linkage programme during the year 2003-04. The number of SHGs linked by RRBs increased from 2,77,340 in the year 2002-03 to 4,05,998 in 2003-04. The total amount of bank loan disbursed to the SHGs by RRBs as on 31st March, 2004 was Rs.1,855.53 crore and the refinance thereof amounted to Rs. 705.44 crore.

As a part of the comprehensive restructuring program, 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).

2.16.3 Refinance Support from NABARD :

NABARD extended refinance support to the RRBs to supplement their resources and to encourage them to finance certain prioritized activities. The short Term credit limits sanctioned for Short Term (Seasonal Agricultural Operations) to 159 RRBs during the year 2002-03 at Rs.1252.36 crore increased to Rs.1346.61 crore for 123 RRBs during the year 2003-04. Against this RRBs had utilized Rs.923.72 crore, recording utilization level at about 69% of the limit sanctioned. As regards investment credit, the refinance assistance at Rs.1,589.35 crore availed by RRBs constituted 20.9% of total refinance assistance disbursed by NABARD during the year 2003-04 compared to Rs.1,538.63 crore constituting 20.7% of total refinance during the year 2002-03.

2.16.4 Restructuring/Merger of RRBs

The RRBs' financial health has been indifferent since their inception Financials have recently improved mainly on account of the recapitalisation done by the shareholders and by taking recourse to investment route for making profits. The indifferent financial health of the RRBs is caused by factors such as limited area of operation, narrow client base, high cost of servicing of numerous small accounts, poor human resource of RRBs. Several Committees have suggested various remedies such as lending to non-target groups (Dantwala Committee 1978), recapitalisation and investment in high yield Government securities (Kelkar Committee 1986) and possible merger with rural subsidiaries of sponsor banks (Narsimham Committee 1995). The Chalapathy Rao Committee (2002) made extensive recommendations on the capital structure, share holding pattern etc. A select group of CMDs of Public Sector Banks under the Chairmanship of SBI considered several options for restructuring and came to the tentative conclusion that RRBs should be amalgamated on a zonal basis (6 Regions) so as to make it viable on a sustainable basis in the current competitive environment.

Government has decided that each sponsor bank will be held squarely accountable for the performance of RRBs under its control. RRBs that adopt a new governance standard and abide by the prudential regulations will qualify for receiving funds from the Government for restructuring.

2.17 DEBTS RECOVERY TRIBUNALS

Under the provisions of the Recovery of Debts Due to Banks and Financial Institutions Act, 1993 which provides for establishment of Debts Recovery Tribunals (DRTs) and Debts Recovery Appellate Tribunals (DRATs) for expeditious adjudication and recovery of debts due to Banks and Financial Institutions and matters connected therewith or incidental thereto, the Central Government have so far established 29 Debts Recovery Tribunals (DRTs) and 5 Appellate Tribunals (DRATs).

The number of cases decided by DRTs is showing steady improvement. The number of cases filed during the period from 1.4.2003 to 31.3.2004 were 9,327 and disposed off cases were 10354 making a recovery of Rs. 4,521 crores. During the period 1.4.2004 to 30.9.2004, 4,615 cases have been disposed off and an amount of Rs. 1,976 crores has been recovered.

Year-wise disposal of cases and recovery

(Amount in Rupees Crores)

Financial Year	No. of cases filed	Amount involved disposed	No. of cases	Amount involved	Recovery made
Upto 31.3.1996	6,338	10,122.24	579	442.28	74.27
1.4.1996 to 31.3.1997	5,297	4,191.35	1,048	516.41	79.27
1.4.1997 to 31.3.1998	7,243	3,659.23	2,107	1,178.37	266.84
1.4.1998 to 31.3.1999	8,455	9,502.16	2,203	979.26	225.88
1.4.1999 to 31.3.2000	10,556	26,491.91	3,888	2,806.48	752.14
1.4.2000 to 31.3.2001	9,778	28,887.39	4,637	4,413.04	1,184.92
1.4.2001 to 31.3.2002	9,321	25,811.14	8,931	8,219.67	2,153.19
1.4.2002 to 31.3.2003	8,196	28,875.22	10,233	12,854.71	3,251.83
1.4.2003 to 31.3.2004	9,327	13,968.03	10,354	22,817.04	4,520.77
1.4.2004 to 30.9.2004	3,948	8,321.25	4,615	7,581.55	1,975.39
Total	**78,459**	**1,59,829.92**	**48,595**	**61,808.81**	**14,484.50**

2.18 AMENDMENT TO BANKING REGULATION ACT, 1949 AND THE DICGC ACT, 1961

In view of large deposits and working funds of co-operative banks, certain provisions of the Banking Regulation Act, 1949 were made applicable, by the Banking Laws (Application to Co-operative Societies)Act, 1965, to the State Co-operative banks, the central co-operative banks and primary non-agricultural banks.

The Supreme Court in the Apex Co-operative Bank of Urban Bank of Maharashtra & Goa Ltd. vs Maharashtra State Co-operative Bank Ltd. and others held that the Reserve Bank of India (RBI) by virtue of its power under section 22 of the Banking Regulation Act, 1949 cannot grant a license to any co-operative bank unless it is a State co-operative bank or a central co-operative bank or a primary co-operative bank. In order to remove the doubts about the legality of the licenses issued to other Maharashtra State Cooperative Banks(MSCBs) and to resolve any difficulties which might arise in the future, it became necessary to urgently carry out necessary amendments in the Banking Regulation Act, 1949 and the Deposit Insurance and Credit Guarantee Corporation Act, 1961 (DICGC Act) to make specific legal provision with retrospective effect, for the validity of the licenses issued to other MSCBs by the RBI and also to enable the RBI to issue in future the licenses to the Multi-State Co-operative Societies to carry on banking business and make the multi-State co-operative banks eligible for insurance of their deposits under the Deposit Insurance Credit Guarantee Corporation Act, 1961. The amendment Bill was passed by both the Houses of Parliament in the Winter Session, 2004 and the Bill has been assented by the President of India. This will protect the interests of small depositors.

2.18.1 Amendment to the Securitization and Reconstruction of Financial Assets & Enforcement of Security Interest Act, 2002.

The Securitization and Reconstruction of Financial Assets & Enforcement of Security Interest Act, 2002.was enacted to regulate Securitisation and reconstruction of financial assets and enforcement of security interest and for matters connected thereto. The Act enables the banks and financial institutions to realize long-term assets, manage problems of liquidity, asset liability mis-match and improve recovery by exercising powers to take possession of securities, sell them and reduce non-performing assets by adopting measures for recovery or reconstruction. The Act further provides for setting up of asset reconstruction companies, which are empowered to take possession of secured assets of the borrower including the right to transfer by way of lease, assignment or sale and realise the secured assets and take over the management of the business of the borrower.

In view of the judgement of the Supreme Court in the case of Mardia Chemicals Ltd. & others vs UOI & Ors. and also to discourage the borrowers to postpone the repayment of their dues and also enable the secured creditor to speedily recover their debts, if required, by enforcement of security or other measures specified in sub-section (4) of section 13 of the said Act, it became necessary to amend the provisions of the said Act. The amendment Bill was passed by both the Houses of Parliament in the Winter Session, 2004 and the Bill has been assented by the President of India.

2.19 AGRICULTURE CREDIT

The Government intends to realize the full potential of agriculture so as to make it beneficial to the farmers. The credit flow to agriculture in the 9th plan (1997-2000) amounted to Rs. 2,29,956 Crore. The 10th Plan (2002-07) envisages a substantial jump in credit flow to agriculture to Rs. 736750 Crore. During the year 2002-03 the credit flow to the sector has been to Rs.70810 Crore and Rs. 86981 Crore in 2003-04. The Government announced a comprehensive policy on June 18, 2004. The policy envisages 30% increase in credit to agriculture sector in 2004-05. The policy has indicated that each rural and semi urban branch of commercial banks, on an average will take up at least 2 to 3 new investment projects in the area of plantation and horticulture, fisheries agro-processing and others. The budget for 2004-05 presented in the Parliament on July 8, 2004 proposed doubling of credit to agriculture in three years and announced further measures to achieve the targeted growth.

A Task Force under the Chairmanship of Prof. A. Vaidyanathan was appointed to recommend and implementable action plan for reviving cooperative credit structure. The Task force has submitted its draft report on short term cooperative credit structure and the same Task Force has been directed to look into the problem of long term cooperative credit structure for agriculture and rural credit.

The Reserve Bank of India constituted an advisory committee on flow of credit on agriculture and related activities from the Banking System under chairmanship of Prof. V.S. Vyas. The advisory committee submitted its report and recommendations of the committee have been forwarded to the bank for implementation. These included waiver of margin/security requirement for agriculture loan upto Rs. 50,000 and in case of every business and agri-clinics for loan upto Rs. 5 lakhs and others. As a measure to minimize incidence of under financing the scale of finance for crop loans and units costs of farm investments have been further revised and made more realistic.

The package announced by the Government includes relief measure to the farmers such as i) farmers in distress ii) farmers in arrears and iii) One-time settlement for small and marginal farmers.

2.19.1 Rural Infra-structure Development Fund (RIDF)

The RIDF was set up by the Government in 1995-96 for financing rural infrastructure. The fund is maintained by the National Bank for Agriculture and Rural Development (NABARD). The total corpus from RIDF I to IX has been Rs. 42000 Crore. The corpus is set up through contributions from scheduled commercial banks. The total sanctions and disbursement under RIDF as on 31.3.2004 was to the tune of Rs. 34,678 Crore and Rs. 2,10,67 Crore respectively. In the Budget for the year 2004-05 an announcement was made for setting up of RIDF X with a corpus of Rs. 8000 Crore during 2004-05 and is currently under implementation. The scope of the activities covered under RIDF has been reviewed and increased to 24 covering large number of rural infrastructure.

2.19.2 Kisan Credit Cards

The Kisan Credit Cards (KCC) Scheme, introduced in 1998-99 aims at providing crop loans to farmers in a flexible and cost effective manner. A National Impact Assessment Survey carried out by NCAER has brought out several advantages of the scheme such as augmentation of credit flow to agriculture sector, lower cost of borrowing for the KCC holders, decline in interest rates in the informal sector etc. The KCC Scheme has been modified to include term loans for agriculture and allied activities and a reasonable component to met the consumption needs, besides the existing facility of providing crop loans. A total of 414 lakh KCC were issued upto March, 2004 with the credit sanctioned amounting to Rs. 97,710 Crore.

2.19.3 Self help Groups (SHGs)

The SHGs bank linkage programme has emerged as the major micro finance programme in the country and is being implemented by commercial banks, regional rural banks and cooperative banks. The SHG bank linkage programme has come a long way and by March, 31 2004 1.67 Crore families had benefited to 10.79 lakh SHGs financed by banks. 563 districts in all the states/UTs have been covered under this programme with participation of 560 banks including 48 commercial banks, 196 RRBs and 316 cooperative banks. The Budget announced an indicative target of 5.85 lakh SHGs to be credit linked during the period upto March 31, 2007. Credit linkages of 1.85 lakhs SHGs were envisaged during the year 2004-05 whereas 1,96,944 SHGs are credit linked during the year with a bank loan of Rs. 1134.02 Crore upto 31 March, 2004.

2.20 INDUSTRIAL DEVELOPMENT BANK OF INDIA (IDBI)

The Industrial Development Bank of India was set up in 1964 by an Act of Parliament, as a wholly - owned subsidiary of Reserve Bank of India, for providing credit and other facilities for the development of industry. In 1976, the ownership of IDBI was transferred to Government of India and IDBI was designated as the Principal Financial Institution for co-ordinating the working of institutions at national and state levels, engaged in financing, promoting and developing industries. Government stake in IDBI currently stands at 58.47%. With the passage of the Industrial Development Bank (Transfer of Undertaking and Repeal) Bill in the Winter Session of Parliament, 2003, IDBI is vested to undertake banking business in addition to transacting the business of the development bank w.e.f. October 1,2004. RBI has issued a notification on September 30,2004 incorporating IDBI as a "scheduled bank ' under RBI Act, 1934.

The accounting year 2003-04 of IDBI was extended by a period of six months i.e; upto September 30,2004 in order to complete the formalities involving the conversion of IDBI into a commercial bank. Accordingly, financial performance of the Bank is given for the 18 month period; April 01,2003- September 30,2004. Total assistance sanctioned during 2003-04 by IDBI aggregate Rs.4,886.9 crore as compared to Rs.6,213.6 crore in 2002-03. Disbursements during FY 2003- 2004 aggregate Rs.4,935.5 crore as against Rs. 6,572.3 crore in the previous year. As per the provisional data, the total assistance sanctioned during the period April -December,2004 amounted to Rs.12,100.6 crore as compared to Rs.3,543.5 crore in the corresponding period of the previous year. During April- December, 2004, sanctions amounted to Rs.10,947.9 crore as compared to Rs.2,774.6 crore during the corresponding nine months of 2003-04. Disbursements during April-December, 2004, amounted to Rs.3,706.3 crore as against Rs.3,584.0 crore in the corresponding period of the previous year. Profit Before Tax for the 18 month period at Rs.462 crore was lower by 1.5% as compared to Rs.455 crore in 2002-03. After considering a net tax credit of Rs.3 crore in 2002-03, profit After Tax for April 2003-September 2004 period amounted to Rs. 465 crore as against Rs.401 crore in 2002-03. IDBI has proposed dividend at 15% on its equity share capital for the 18 month period ended September 30, 2004 , identical, to what was declared for the previous financial year. IDBI maintain a sound capital base at CAR of 18.2% above 9% stipulated by RBI norms.

IDBI ensures compliance of pollution control norms stipulated by the Government of India in all its projects. IDBI is a financial agent of the World Bank to implement pollution control and energy efficient projects. Under Ozone Depletion Project, IDBI disbursed US$ 28.37 million out of the total grant of US$ 51.2 million since 1994-95. Under Chlorofluorocarbon (CFC) Production Sector Gradual Phase out Project, IDBI disbursed US$ 9.36 million during 2003-04 out of the grant of US$ 80.80 million received during 2000-01. Under the project for phasing out of production of Halon in India during 2002-03, IDBI received an amount of USD 2.32 mn (USD2.30 mn for beneficiaries and US D 0.02 mn as agent fee). IDBI received a grant of US$ 52 million in August, 2004. IDBI would earn as agent fee @ 2 % of the amount disbursed over a period of next 6 years. IDBI is also a Financial Intermediary for the United States Agency for International Development (USAID) funded Greenhouse Gas Pollution Prevention (GEP) Project since 1995. Cumulative commitments and disbursements upto September 30,2004 stood at USD 6.78 mn approx (Rs.28.84 crore) and USD 5.33 mn approx. (Rs.23.85 crore) respectively.

The assistance of the Bank to North East is Rs.46.4 crore during the 18-month period ended 30th September, 2004; disbursements during this period amounted to Rs.42.0 crore. Cumulative assistance sanctioned and disbursed to the North - East Region and Sikkim up to end-December, 2004 stood at Rs.1103.2 crore and Rs.911.3 crore respectively. Cumulative assistance sanctioned and disbursed by IDBI for Voluntary Agencies engaged in the Welfare of Disabled Persons aggregate Rs.3.49 crore and Rs.3.23 crore up to end-December, 2004. Women work force in IDBI constitutes 31% of the total work force. IDBI provides equal opportunities to women in terms of opportunities for promotions, postings, training, exposure to work etc. The Complaint Committee looks into complaints of women at work place.

IDBI has a web-site to provide updated information in English and Hindi about its activities to the stakeholders and to accept feed back from the public, which are periodically reviewed. IDBI has an 'intranet" and E-mail facility for smooth flow of communication between employees. IDBI has set up a data integrating center to upgrade its IT initiatives.

2.20.1 EXPORT-IMPORT BANK OF INDIA(EXIM BANK)

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

During the year ended March 2004(FY 2003-04), the Bank sanctioned loans of Rs.9,266 crore under various lending programmes, as against Rs.7,828 crore, during 2002-03. Disbursements during the year amounted to Rs.6,957 crore, as compared to Rs.5,320 crore during the previous year. Loan assets increased to Rs. 10,775 crore as on March 31, 2004 from Rs. 8,774 crore as on March 31, 2003. The Bank sanctioned and issued guarantees of Rs.1,079 crore and Rs. 574 crore respectively. Bank registered profit before tax of Rs. 304 crore on account of General Fund during FY 2003-04 as against Rs. 269 crore for FY 2002-03. After providing for income-tax of Rs. 75 crore, profit after tax amounted to Rs. 229 crore during FY 2003-04 as against profit after tax of Rs. 207 crore during FY 2002-03, an increase by 11%. Net worth of the Bank increased to Rs. 2,143 crore as on March 31,2004 from Rs. 1967 crore as on March 31,2003. A Dividend of Rs.47 crore was paid to the Government for FY 2003-04 as compared to Rs.45 crore in the previous year. The Capital to Risk Assets Ratio (CRAR) stood at 23.5 % as on March 31, 2004 as compared to 26.92% as on March 31, 2003. The Debt-equity Ratio as on March 31,2004 was 5.3:1. Exim Bank is in full compliance with all prudential norms stipulated by RBI. The Bank's debt instruments continued to enjoy the highest rating viz. 'AAA' from the rating agencies, CRISIL and ICRA. During the current year (FY 2004-05) up to December 31,2004, Exim Bank sanctioned loans of Rs.9,479 crore under various lending programmes compared to Rs,4,336 crore during the corresponding period in the previous year , an increase of 119%. Disbursements during the nine months ended December 31,2004 amounted to Rs.6,017 crore as compared to Rs. 3,732 crore during the corresponding period in the previous year, an increase of 61%. Cumulative sanctions and disbursements of loans for the period March 1982 to March,2004 (twenty two years) amounted to Rs.45,605 crore and Rs.35,055 crores respectively. Cumulative guarantees sanctioned and guarantees issuer during the above period amounted to Rs.5,421 crore and Rs.3,830 crore respectively.

During the year (2003-04), 164 contracts aggregating Rs.7,543 crore covering 48 countries were secured by 96 Indian exporters with Exim Bank's support. During April-December, 2004 the Bank supported 364 contracts aggregating Rs.5,806 crore covering 58 countries secured by 170 Indian Exporters. 12 LOCs amounting to US$ 168 million were extended during 2003-04 for supporting exports to countries in Africa, as also to Hungary, Poland, Kazakhstan, Trinidad & Tobago and Iran. 11 LOCs aggregating to US $ 225 mn. have been extended during FY 2004-05 up to December 31,2004 for supporting exports to countries in Africa as also Brazil, Myanmar, Angola, Vietnam, Surinam, Mozambique, Lesotho, Guyana and Senegal.

Exim Bank has been focussing on Small and Medium Enterprises (SME) exporters as a significant target group of clients. The Bank has taken the initiative to set up an SME Cell to address this sector in a focussed manner. Exim Bank has set up an office in Guwahati in January, 2003 to identify viable projects and export transactions especially in the agri sector for financing in the North Eastern Region of the country. Exim Bank is a promoter member of Small Farmers' Agri-Business Consortium (SFAC) ,Guwahati. SFAC is the nodal agency facilitating and investing in agri business ventures promoted by small farmers. SFAC is also the nodal agency for implementation of Mini-Mission IV of the Technology Mission for integrated development of horticulture in North Eastern Region. Exim Bank has contributed Rs.1.50 crore to SFAC. Exim Bank has also brought out a publication on "Potential for Export of IT Enabled Services from North Eastern Region of India " and has also brought out a Research Publication titled 'Export of Organic Products from India: Prospects and Challenges' in which the potential for organic farming in the North Eastern Region has been covered. During the year 2003-04, the Bank made an entry into financing of the entertainment industry, healthcare services sector and agri-exports.

2.20.2 IFCI Limited.:

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

During the year 2003-04, IFCI suffered a loss of Rs. 3230 crore compared to a loss of Rs.260 crore for the previous year. The higher loss during 2003-04 was largely due to lower income from operations mainly due to reduction in interest earning assets caused by normal repayments /prepayment of loans and higher provisioning against non-performing assets. The net loss for the half -year ended 30th September, 2004 was of the order of Rs.88 crore against Rs.884 crore for the corresponding period of the previous year. During the year 2003-04, over all sanctions aggregated Rs.1,392 crore for 21 projects as compared to Rs.2,031 crore for 54 projects during 2002-03. Cumulative sanctions up to end March,2004 is Rs.46,202 crore for 4866 projects. The disbursements during 2003-04 is Rs.28 crore and cumulatively up to 31st March, 2004 is Rs.44,308 crore. During the half -year ended 30th September, 2004, IFCI had made an operating profit of Rs.64 crore. IFCI has been able to restructure its liabilities amounting to Rs.12,271 crore up to 31.12.2004 out of the aggregate liability of Rs.15,800 crore as on 31.3.2004.

IFCI sanctioned and disbursed cumulatively a sum of Rs.328 crore to 61 projects in the North-Eastern Region including Sikkim. IFCI has promoted , along with other institutions, North Eastern Development Finance Corporation Ltd. (NEDFI)), North-Eastern Industrial Consultancy Organization Ltd. (NEITCO) and North - Eastern Industrial Consultants Ltd. (NECON) for overall development of industries and infrastructure in the North-Eastern Region.

IFCI has sponsored Rashtriya Gramin Vikas Nidhi (RGVN) along with other instititutions to promote , support and develop voluntary organizations engaged in the social and economic uplift of rural and urban poor , physically and socio-economically handicapped people , to improve the pace and quality of economic development, especially to village and decentralized sector ; to focus attention on groups which are disadvantageously placed in society, but have potential for pursuing socially and economically productive activities and to assist the rural poor, tribal, scheduled caste , women and children for their economic self-sustenance. During the year 2003-04, RGVN has been able to reach out to 9,100 households through its NGO Support Programme and the Credit and Savings Programme. Over 95 % of persons supported during the year were women which helped in their empowerment.

IFCI has computerized a major portion of its operations and has strengthened the on-line communication system among its offices. IFCI also has its own web-site through which information about IFCI and its operations are being disseminated to public domain through this facility.

2.20.3 INDUSTRIAL INVESTMENT BANK OF INDIA LTD. (IIBI LTD.)

Industrial Investment Bank of India Ltd. (IIBI) was set up in March, 1997 as a Company under the Companies Act, 1956 by converting the erstwhile Industrial Reconstruction Bank of India (IRBI). IIBI is fully owned by Government of India.

IIBI is facing financial strain on account of high cost of funds and high NPAs. The focus of the organization was on recovery from Non-Performing Assets (NPA), exiting assets under stress, and servicing debt liabilities in time. IIBI had recovered Rs.131.11 crore from NPAs during 2003-04 as against Rs.38.20 crore made during the previous year. Recovery from NPAs during April-December, 2004 has been Rs. 95.90 crore (Rs.65.03 crore as principal and Rs.30.87 crore as interest). IIBI's operations had been curtailed owing to severe financial crunch. IIBI has introduced a Voluntary Retirement Scheme (VRS) in February, 2004. In response to the VRS, 63 employees have been granted retirement. The amount of fresh acquisition of financial assets by IIBI by way of loans to industrial units during he year 2003-04 (April-March) was around Rs.55 crores as compared to Rs.52 crores during 2002-03. Loan sanctioned and disbursed by IIBI during the year 2004 (April-Dec) was only Rs. 0.85 crores and Rs.7.57 crore respectively.

2.20.4 INFRASTRUCTURE DEVELOPMENT FINANCE COMPANY LTD. (IDFC):

Infrastructure Development Finance Company Ltd. (IDFC) was established in 1997 as a specialized financial intermediary in the private sector to address the financial requirements of the infrastructure sector. Govt. of India's stake in IDFC stood at 20%. IDFC's area of operations include energy, telecommunications, transportation, urban infrastructure, food and agri-business infrastructure and it has recently entered into tourism , health and education sectors. During the period April 1- to March 31,2004 (2003-04), IDFC's gross approvals were Rs.5,727 crore for 81 projects and gross disbursements were Rs.2,704 crore for 59 projects, an increase of 149% and 185 % respectively over the figures of the previous financial year. During the period April 1 to September 30,2004, IDFC's gross approvals were Rs.3,729 crores for 29 projects and gross disbursements were Rs.1,532 crore for 49 projects, an increase of 31% and 57% respectively over the figures for the same period in the previous financial year. On a cumulative basis, as on September 30,2004, IDFC's gross approvals were Rs.21,915 crore for 175 projects and gross disbursements were Rs.8,410 crore for 103 projects. The approvals net of cancellation were Rs.14,032 crore and the outstanding disbursements were Rs.6,195 crore.

IDFC ensures compliance of environmental norms of Indian laws and with international best practices. IDFC has initiated a dialogue with North Eastern States to prepare a strategy for development of infrastructure in the region, including urban and tourism infrastructure sector. IDFC has initiated informal discussion with various groups and State Governments/ agencies on e-governance projects.

2.20.5 PERFORMANCE OF SIDBI DURING FY2005

Small Industries Development Bank of India was established in April 1990, under an Act of the Parliament as a wholly owned subsidiary of the Industrial Development bank of India (IDBI). After the amendment in SIDBI Act, 1989 in the year 2002, the ownership of the Bank has been transferred from IDBI to the public sector banks, financial institutions, insurance companies and other institutions, owned or controlled by the GOI. In the last 14 years of its operations, upto March 2004, the Bank has disbursed a cumulative assistance of Rs.63, 515 crore. During FY2005, the sanctions and the disbursements upto December 2004 were at Rs.6,520 crore and Rs.4,102 crore, respectively.

OPERATIONAL HIGHLIGHTS

SIDBI serves as the principal financial institution for financing and development of SSIs and coordination of institutions engaged in similar activities. In its efforts to cater to the entire spectrum of SSI 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 primary lending institutions [PLIs], [ii] direct assistance, and [iii] development and support services.

In the last 14 years of its operations, up to March 2004, the Bank has disbursed a cumulative assistance of Rs.63,515 crore. During FY2005, the sanctions and the disbursements up to December 2004 were at Rs.6,520 crore and Rs.4,102 crore, respectively.

MAJOR INITIATIVES TAKEN DURING FY2004-05 [UPTO DECEMBER 2004]

Small and Medium Enterprises Fund

An important initiative recently taken by the GoI and SIDBI is launching of an SME Fund of Rs.10,000 crore, with a view to giving impetus to the fund flow to the SME sector. SIDBI has structured the Fund and commenced its operations with effect from April 2004. Under the Fund, 80 percent of the assistance is earmarked for SSIs and 20 percent for the medium enterprises. The assistance is provided at an interest rate of 2 percent below the Bank's PLR. Direct assistance is being extended through SIDBI's own offices at 9.5 percent rate of interest and refinance to SFCs is available in the interest rate band of 7.5 - 8 percent. During the period April - December 2004, the Bank has sanctioned an assistance of Rs.2,056 crore and disbursed Rs.1,086 crore under the Fund.

Venture Capital Funding

In order to address the issue of availability of credit to start-ups, SIDBI, along with some other institutions, has taken a lead in promoting venture capital funding for the small scale sector. Under various components of venture capital funding, the Bank has sanctioned a cumulative assistance of approximately Rs.500 crore upto December 2004. During the year, the Bank has launched a new SME Growth Fund with a contemplated corpus of Rs.500 crore.

Micro Credit

Realising the potential of micro finance in stimulating economic growth and generation of employment, SIDBI has laid emphasis on increasing micro credit and enhancing the capacity of the micro finance institutions to handle credit and growth. The Bank has sanctioned a cumulative assistance up to December 2004 of Rs.357 crore, benefiting around 14 lakh beneficiaries, mostly women.

World Bank-led Project on Financing and Development of SMEs

With a view to scaling up credit flow to the sector and raising resources for the SME Fund, SIDBI has recently negotiated a project with the World Bank for financing and development of SMEs in India. The Project has three components - [i] Line of Credit, [ii] Risk Sharing Facility, and [iii] Technical Assistance. The negotiations for a Line of Credit of USD 120 million from WB have been completed. It is expected that different components of the Project, apart from enhancing the capacities and competitiveness, would increase credit flow and generate additional output & employment in the sector.

Rural Industries Programme

Recognising the need for development of viable and self sustaining tiny / small enterprises in the rural sector by harnessing local entrepreneurial talent, SIDBI had conceptualised a Rural Industries Programme in 1993-94, under its promotional and developmental activities. The RIP is an integrated programme aimed at creation of employment in rural areas through enterprise promotion. At present, RIP is being implemented through 37 different implementing agencies spread across 75 districts in 25 States, including all the North Eastern States. Cumulatively, upto December 31, 2004, more than 15,161 units have been promoted under the programme, creating employment opportunities for around 50,000 persons.

Credit Guarantee Fund Trust for Small Industries

With a view to mitigating the problem of collaterals, Government of India, in association with SIDBI, has set up a Credit Guarantee Fund Trust for Small Industries to implement a guarantee scheme. The Trust has, at present, a corpus of around Rs. 925 crore. Small loans upto Rs.25 lakh are eligible to be covered under the scheme.

As at end-December, 2004, CGTSI has extended guarantee cover to 21,234 cases with a loan amount of Rs.419.90 crore.

Financial Highlights of the Bank for the period ended March 31, 2004 are given below :-

(Rs. crore)

	For the year					
	1990-91	1999-2000	2000-01	2001-02	2002-03	2003-04
Sanctions	2,410.1	10,264.7	10,820.6	9,025.5	10,903.6	8,246.3
Disbursements	1,838.8	6,963.5	6,441.4	5,919.3	6,789.4	4,414.2
Share in total sanctions (%)						
- Direct	4.8	35.6	24.5	28.5	25.1	47.1
- Indirect	95.2	64.4	75.5	71.5	74.9	52.9
	As on March 31					
	1991	2000	2001	2002	2003	2004
Capital - Authorised	500.0	1,000.0	1,000.0	1,000.0	1,000.0	1,000.0
- Paid-up	450.0	450.0	450.0	450.0	450.0	450.0
Reserves and Funds	44.9	2,423.8	3,611.5	3,823.3	3,981.1	4,142.8
Outstanding Portfolio	5,176.8	15,194.3	14,570.6	13,160.0	12,728.2	10,063.9
Total Income	425.1	1,597.9	1,619.4	1,559.6	1,405.5	1,151.4
Net Profit	35.6	459.4	477.4	281.7@	207.2@	243.1@
Standard Assets as percentage of Total Assets	..	96.2	95.6	94.1	93.0	92.0

@ Profit after tax .. Not assessed

2.20.6 BOARD FOR INDUSTRIAL AND FINANCIAL RECONSTRUCTION

BIFR set up under the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA) became operational w.e.f. May 15, 1987. The Board looks into cases of sick industrial companies in the large and medium sector with a view to achieving, inter-alia, the objectives of timely detection of sickness and determination of preventive, ameliorative, remedial and other measures in respect of such companies and expeditious enforcement of the measures so determined.

The progress of work of the BIFR as on 31.10.2004 (latest available) is indicated below: -

Sl No.	Status	As on 31.03.2004	As on 31.10.2004
1.	Reference received	6349	6518
2.	Registration declined	1400	1417
3.	Under Scrutiny	25	21
4.	References registered	4924	5080
5.	Dismissed as non maintainable	1336	1364
6.	Rehabilitation schemes approved/ sanctioned by BIFR/AAIFR	627	633
7.	Winding up recommended to the concerned High Courts	1246	1294
8.	Draft Schemes Circulated	65	53
9.	Winding up notices issued	125	110
10.	Under inquiry	1356	1445
11.	Schemes failed and reopened	32	27
12.	Pending cases remanded by AAIFR	44	51
13.	Stay ordered by courts	35	42
14.	Net worth became positive during enquiry and hence dropped	58	61
15.	Declared no longer sick out of Sl No. 6	359	372

Corporate Debt Restructuring (CDR)

In the year 2001 Reserve Bank of India had issued detailed guidelines for the Corporate Debt Restructuring (CDR) framework. The objective of the CDR framework is to ensure timely and transparent mechanism for restructuring of the corporate debts of viable corporate entities affected by internal or external factors, outside the purview of BIFR and DRT and other legal proceedings for the benefit of all concerned. CDR framework aims at preserving viable corporates and minimizes the losses to the creditors and other stakeholders through an orderly and coordinated restructured programme.

CDR is a non-statutory and a voluntary system based on debtor-creditor agreement and inter-creditor agreement.

The Scheme applies to multiple banking accounts/syndication/ consortium accounts with an outstanding exposure of Rs.20 crore and above by Banks/ Institutions. The CDR system is applicable only to standard and sub-standard accounts and there is no requirement of the account/ company being sick, NPA or being in default for a specified period. Another important feature of CDR is that if 75% of secured creditors by value agree to a debt-restructuring package, the same is binding on the remaining secured creditors.

As at the end of November 2004, CDR mechansim has received 157 references for restructuring. In 112 cases restructuring packages have been approved for implementation and 13 cases are at various stages of processing. 32 cases have been rejected/ closed.

A review of CDR Mechanism has been undertaken on the basis of feedback received from CDR Cell. A Special Group has been constituted by RBI for the purpose of suggesting changes/ improvement based on the review in the existing system. The Group is likely to submit its report shortly.

CORPORATE DEBT RESTRUCTURING (CDR) CELL STATUS OF APPLICATIONS RECEIVED

(Position as on 30th November 2004)

Applications	Number	Total Debts (Rs in crores)
Total proposals received	157	77,115
a) Proposals approved	112	68,627
b) Proposals Rejected/ closed	32	5,729
c) Applications under process	13	2,660

APPELLATE AUTHORITY FOR INDUSTRIAL AND FINANCIAL RECONSTRUCTION (AAIFR)

Appellate Authority for Industrial and Financial Reconstruction (AAIFR) was set under the provisions of Sick Industrial Companies (Special Provisions) Act, 1985 to hear appeals against the orders of the Board for Industrial and Financial Reconstruction. During the year 2004-05, the Authority received 103 appeals, and the closing balance at the end of 2004-05 went up to 674.

2.20.7 SHIPPING FINANCE

In accordance with the provisions of Shipping Development Fund Committee (SDFC) (Abolition) Act, 1986, the functions of SDFC were taken over by the Ministry of Finance, Banking Division, with effect from 3rd April 1987. ICICI Ltd which amalgamated into ICICI Bank w.e.f 23rd July 2002, was nominated as the designated person to perform the functions relating to sanction/release of loans to shipping companies in the private sector, against past commitments of erstwhile SDFC, and recovery of dues from shipping and fishing companies.

2. Government disbursed an aggregated amount of Rs 97.51 crore between April 1987 and March 2004. No disbursement has been made during 2004-05.

3. The funds in respect of erstwhile SDFC assisted fishing companies were provided by erstwhile Ministry of Food Processing Industries from their Budget provisions. SDFC had sanctioned loan to 85 fishing companies for the purpose of acquiring trawlers. Only 3 companies were repaying their loans. As per rehabilitation scheme for SDFC assisted fishing companies announced by ICICI, on 5th May 1997, 33 fishing companies availed of the rehabilitation scheme. The others are under various stages of settlement under the aegis of Settlement Advisory Committee set up for this purpose.

2.21 IMPLEMENTATION OF OFFICIAL LANGUAGE POLICY IN THE BANKING DIVISION, BANKS AND FINACIAL INSTITUTIONS.

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. 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 quartetly 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 2004-2005 four such meetings were held on 15.4.2004, 26.7.2004, 2.11.2004 and 17.1.2005 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, 25 Town Language Implementation Committees also monitor the progress of implementation of Official Language Policy in the Banks in different towns.

3. As a result of the reviews made at different levels, the use of Hindi for official purposes in Pubic 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 communiques and public notices of all India coverage are issued billingually by Public Sector Banks and Financial Institutions. Annual Reports and House Journals are also being published by banks and finacial institutions bilingually. In addition, Hindi magazines are brought out by several Banks.

4. 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, 593 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.

5. Under the Rule 10(4) of the Official Language Rules, 1976 the number of notified branches /offices of various Banks and Finacial Institutions have increased to 28,252 . 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.

6. 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.

7. 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.

8. 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 .

9 . Offices of Banks /Financial Institutions are also inspected by officers of Banking Division to have an assessment of the implemention of the various requirements of Official Language Policy.

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

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 Secretary, has a Joint Secretary, two Directors, five 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:. No officer in the Division was nominated for any training or seminar in India or abroad during the year.

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 Regional Office-II of Oriental Insurance Company Ltd, Delhi Divisional Office, Life Insurance Corporation of India, Ahmedabad and Regional Office, The New India Assurance Company Ltd, Ahmedabad during January, 2004 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, 4 Days 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 about 200 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 Reservation 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. Special coaching classes were held to enable SC/ST employees to acquire knowledge about the procedures followed by the various departments so that they are able to give a better account of themselves in promotions and interviews. Necessary care was taken by the Companies in regard to placement-cum-posting and nomination for training programmes for employees of this group.

SC/ST/OBC Cells are functioning under the guidance and support of the Chief Liaison Officers at Central/Head Office. Liaison Officers for SCs/STs and OBCs have also been appointed at the Zonal / Regional Offices. Workshops on Reservation Policy for SC/ST and OBC are regularly held for the Personal Officers and Liaison officers. Structured meetings to review the implementation of the reservation policy and welfare measures are periodically conducted in which Chief Liaison Officers, Assistant Liaison Officers and Officials of the Personnel Department and the representatives of the Employees' Welfare Associations participate.

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. An amount of Rs.50,000/- to be reimbursed to these welfare groups for expenses on welfare activities and 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.

Post based rosters are maintained with effect from 2.7.1997 and special recruitment drive has been initiated in GIPSA Companies for recruitment to fill up the backlog vacancies of SC/ STs. Care was taken in implementation of the reservations/ concessions and safeguard to the employees belonging to these categories adhering to the rules and guidelines framed by the Government in this regard.

Study Groups of Parliamentary Committee on Welfare of SC/ ST met the representatives of SC/ST Welfare Associations and Management of GIPSA Companies in November 2004 to review the progress of implementation of Government Guidelines on reservations/concessions/safeguards to SC/STs.

3.7 Vigilance in Insurance Industry: Vigilance Departments of LIC of India and Public Sector General Insurance Companies are headed by the Chief Vigilance Officers. During the year 2003-04, the Vigilance Departments conducted 930 surprise visits to enforce preventive vigilance. There were 1,697 registered cases pending on 01.04.2003. During the year 1,211 cases were registered and 1,071 cases were closed. As a result, 1,837 cases were pending on 31.03.2004. 1,350 cases were taken for investigation which pertain to the employees of the insurane companies, insurance agents, medical examiners, etc. etc. The Vigilance Departments conduct investigations into the complaints of corruption and malpractices and submit reports to CBI, CVC for their appropriate advices. The Departments generally aim at preventive and detective vigilance. Efforts were made to promote awareness about vigilance including positive aspects among the officials of the insurance companies.

The insurance companies observed the vigilance awareness week from 3rd November, 2003 to 7th November, 2003 and 1st November to 6th November, 2004 in all their offices and conducted workshops of vigilance officials of the companies. To improve vigilance administration, periodical training sessions were conducted both in-house and also by deputing officers to various special vigilance programs conducted by Delhi Productivity Council and other reputed organizations.

3.8 Redressal of Public Grievances : In LIC trained personnel i.e. Customer Relations Executives in the Branch Offices and Customer Relations 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. Operating offices viz. Regional/Divisional and Branch level have initiated steps to meet the complainants on an appointed day of the week.

The Head Offices and Regional Offices of GIPSA companies have set-up separate Grievances Redressal Departments headed by officer experienced in customer services. During the period 2003-2004, the performance of the companies has been as below:

Company	Grievances reported	Grievances redressed	Grievances outstanding
National	4202	3417	785
New India	2896	1864	1032
Oriental	2115	1930	185
United India	1098	781	317

3.9 Reforms in Insurance Sector: The insurance reforms were set in with opening up 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.

Since opening up, the number of participants in the industry has gone up to 14 insurers each in the life and non-life sectors. The premium underwritten by the industry has grown from Rs.45,677.57 crore in the year 2000-01 to Rs.83,645.11 crore in 2003-04. The channels introduced in the market to underwrite premiums include agents, brokers, corporate agents including banks, referral arrangements and sales through the internet. As on date there are over 18 lakhs agents in the insurance sector. The paid up equity capital of the insurers stood at Rs.5,607.07 crore as on 31st March, 2004, as against Rs.1,692 crore as on 31st March, 2001, confirming their long term commitment to the industry.

Insurers have introduced innovations while launching new products in the market, and alternative channels have been tapped to increase the penetration and reach of the industry. Tailor made products have been launched to meet the aspirations of the rural populace and to evolving needs of a growing economy, both in the manufacturing and the services sectors. Efforts at increasing consumer awareness have been made at both the industry and regulatory levels. The competitive market conditions have also resulted in driving down premium rates/charges in respect of certain products and in improving the quality of services offered by the insurers. In addition to the conventional channels, NGOs and e-choppals are being tapped to sell insurance in the rural markets for providing coverage to informal sectors, backward classes and economically weaker sections. Recently, the Authority has put up a Concept Paper on Micro-Insurance on its website. This could provide a framework for insurers designing suitable micro-insurance products. Norms are being framed to recognize micro insurance agents, like Non Government Organizations (NGO) and Self Help Groups (SHG).

One of the objectives of opening up of the industry was to provide impetus to the health sector. In this direction, the Authority has taken an initiative by constituting a Working Group which is expected to identify impediments in development of health insurance sector in the country and recommend steps to be taken for their early resolution. It is envisaged that the deliberations of the Group would facilitate development of National Health Insurance including managed care plans. The Working Group has further set up three sub-groups (i) reconstituted data sub-group to implement the accepted recommendations; (ii) enabling environment for stand-alone health insurance companies; and (iii) pre-existing conditions in health insurance policies and innovations in private health insurance to facilitate implementation of its recommendations.

At present fire, motor and engineering segments of the non-life industry are governed by tariff prescribed by Tariff Advisory Committee. After liberalization of the industry and entry of private players it was expected that de-tariffing would be introduced across the board. In view of the continuous losses incurred by the industry under the motor portfolio, the Authority had constituted Justice Rangarajan Committee, followed by S V Mony Committee to examine various issues in the Motor portfolio. As a follow up of the recommendations, the Authority proposed to de-tariff the Motor – OD segment of the Motor portfolio w.e.f 1st April, 2005. However, most of the insurers expressed the view that Motor – OD segment alone should not be de-tariffed. They opine that either the entire motor portfolio should be de-tariffed or detariffing should be carried out in respect of all the segments currently under tariff. The Authority is in the process of deliberations with the industry on this issue.

The Authority has been engaged with building up adequate database in respect of all stakeholders in the industry. From the long term perspective, it is incumbent to establish an electronic linkage between the branch and head offices of individual insurers and with the Authority / Tariff Advisory Committee (TAC). As the transmission of information would be voluminous in future, it would be pertinent to explore possibilities for establishing a dedicated "Insurance Net". Collection and collation of data will also facilitate establishing benchmarks for the industry. The Authority has initiated efforts on data warehousing in respect of Health and Motor, and TAC has been identified as the repository for the purpose. Initiatives have also been taken on building up databases on declined lives in the life sector. In another initiative, the Authority has also set up a separate Research and Development Wing.

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 2003-2004 were laid on the Tables of Lok Sabha and Rajya Sabha on 23/12/2003 and 21/12/2003 respectively. The Annual Reports of GIC and four public sector general insurance companies for the year 2003-04 were laid on the Table of Lok Sabha and Rajya Sabha on 23.12.2004 and 21.12.2004 respectively. Similarly the Annual Report of Insurance Regulatory and Development Authority for the year 2002-03 has been laid on the Table of Lok Sabha and Rajya Sabha on 16.07.2004 and 13.07.2004 respectively.

3.11 Abatement of Pollution and Environmental 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 are in operation. 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 Casts and Scheduled Tribes discussed with the officers of United India Insurance Company Limited and Oriental Insurance Company Limited at Chennai and Udaipur respectively (during October and November, 2004) the arrangements in regard to the reservations for and employment of Scheduled Casts and Scheduled Tribes in those 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 the 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 U.K., 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 31.03.2004 the rates of bonus ranging between Rs34/- to Rs.80/- per Rs.1000 sum assured under assurances and Rs.18/- to Rs.24/- 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.30/- and Rs.71/- per Rs.1000 sum assured. Further the Corporation has also declared final additional bonus between Rs.20/- and Rs.1,400/- per Rs.1000 sum assured under assurances depending upon the term/duration and the amount of sum assured.

As on 31st March, 2004, LIC had 7 Zonal Offices, 101 Divisional Offices and 2048 Branch Offices.

Expenses on Management and Expense Ratio : The expenses of management, renewal expense ratio and overall ratio for the last 5 years are given in the Table below:

YEAR	EXPENSES OF MANGEMENT (RS.IN CRORE)	RENEWAL EXPENSE RATIO (%)	OVERALL EXPENSE RATIO (%)
1999-2000	5,810.86	5.60	19.35
2000-2001	6802.99	2.40	19.90
2001-2002	8778.30	4.20	17.72
2002-2003	9619.71	#	17.53
2003-2004	10920.34	#	17.30

** Figures for the years 2002-2003 and 2003-2004 have been regrouped as per IRDA guidelines.

The Renewal Expense Ratio shows a negative trend and hence is not calculated.

Premium Income and Life Fund

The year-wise position of the total premium income as well as of 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	
1999-2000	(27,461.70) 27,849.80	(20.40)	21.20
2000-2001	(34,207.80) 34,877.30	(24.60)	25.20
2001-2002	(48,963.60) 49,805.93	(43.10)	42.80
2002-2003	(53,545.40) 54,602.37	(9.36)	9.63
2003-2004	(61,854.82) 63,130.66	(15.52)	15.62

Figures with brackets indicate that the total premium income and hence % increase is exclusive of premium received under Jeevan Suraksha Plan.

YEAR	LIFE FUND (RS. IN CRORE)	% INCREASE OVER PREVIOUS YEAR
1999-2000	154,043.70	20.90
2000-2001	186,024.80	20.80
2001-2002	232,900.94	24.20
2002-2003	273,004.96	17.22
2003-2004	321,753.53	17.86

* Figures for the years 2002-2003 and 2003-2004 have been regrouped as per the IRDA guidelines.

Investment : The total book value of investment of the Corporation and loans outstanding as at the end of 2003-04 was Rs.3,43,129.00 crores as compared to Rs.2,65,044.00 crores at the end of 2002-03.

New Business (Individual Assurances, Bima Nivesh & Single Premium) : During the year ended 31st March 2004 LIC transacted in India, new business of Rs. 1,99,698.02 crores under266.26 lakhs policies was generated as against Rs. 1,79,512.22 crores under 242.68 lakhs policies during the preceding year. The increase in new business was 9.72% in terms of number of policies and 11.24% in terms of sum assured over the new business of the year 2002-2003.

Rural New Business ((Individual Assurances): The New Business written in rural areas during 2003-04 amounts to Rs.35651.99 crores Sum assured under 62.19 lakhs policies as against Rs.23547.69 crores Sum Assured under 45.23 lakhs policies during the preceding year as per the definition of rural/social sector approved by IRDA. This represents 17.85% of total business (excluding Bima Nivesh & Single Premium and Annuities) on Sum Assured basis and 22.79% on number of Policies basis as against 13.37% and 18.90% respectively during the preceding year.

GROUP INSURANCE BUSINESS : For the year ended 31st March, 2004, business under Group Schemes both new and renewed was to the tune of Rs.1,43,398.20 Crore providing cover to 252.46 lac lives, against Rs.1,10,763.34 Crore providing cover to 240.99 lac lives during the preceding year. Under Group Superannuation Schemes, annuities to the tune of Rs.214.90 Crore per annum was granted to 1.72 Lacs lives against Rs.186.87 Crore per annum to 1.08 Lac lives during the preceding year.

SOCIAL SECURITY SCHEMES : 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 up to Rs.5,000/- on death with accident benefit up to Rs. 25,000/-. There are 24 approved occupational groups belonging to these sections of the society . They are as follows.

Sr. No.	Occupation
1.	Beedi Workers
2.	Brick Klin Workers
3.	Carpenters
4.	Cobblers
5.	Fisherman
6.	Hamals
7.	Handicraft Artisans
8.	Handloom Weavers
9.	Handloom & Khadi Weavers
10.	Lady Tailors
11.	Leather & 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.	Sericulture
22.	Toddy Tappers
23.	Powerloom Workers
24.	Hilly Area Woman

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

In addition, Group Insurance Scheme for Integrated Rural Development Programme (IRDP) / Swarnjayanti Gram Swarojgar Yojana (SGSY) beneficiaries are 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
1999-2000	26740	3913
2000-2001	31975	3148
2001-2002	36862	2188
2002-2003	30041	1280
2003-2004	31290	864

JANASHREE BIMA YOJANA : In pursuant to Government's announcement in the Budget 2000-2001, the 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 to 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 the 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.

From the period since its introduction, the LIC has identified and approved **18 new groups** for their eligibility namely;

Sr. No.	Groups
1.	Food Stuffs as Khandsari/Sugar
2.	Textile
3.	Wood Products
4.	Paper Products
5.	Leather Products
6.	Printing
7.	Rubber & Coal Products
8.	Candle Products
9.	Toys manufacture
10.	Agriculturists
11.	Transport Drivers Association
12.	Transport Karmacharis
13.	Rural Poor
14.	Construction Workers
15.	Fire Crackers Workers
16.	Coconut Processors
17.	Aanganwadi Teachers
18.	Kotwal

The no. 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

	2001-02	2002-03	2003-04
New lives	6,53,607	6,36,744	17,32,357
Existing lives renewed	1,65,405	5,21,495	7,74,667
Total	**8,19,012**	**11,58,239**	**25,07,024**

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

YEAR	NO. OF CLAIMS
2001-2002	4,309
2002-2003	9,685
2003-2004	15,248

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 on 1st July, 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. 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. In the first year, the Government decided to meet the Government's share @ Rs.2/- per person per day out of 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:

	2001-02	2002-03	2003-04
New lives	1,01,209	1,09,993	7061
Existing lives renewed		28,242	49,983
Total	1,01,209	1,38,235	57,044

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

YEAR	NO. OF CLAIMS
2001-2002	Nil
2002-2003	103
2003-2004	271

SHIKSHA SAHAYOG YOJANA (SSY)

In pursuant to the Government's announcement in the Budget 2001-2002, LIC launched the Shiksha Sahayog 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
2001-02	765
2002-03	47,313
2003-04	1,60,473

Settlement of Claims : During the year, 2003-2004, LIC settled 103.53 lakh claims for total amount of Rs.19,607.20 crores compared to 96.91 lakh claims for Rs.17061.75 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
1999-2000	2.36	4.19
2000-2001	1.67	3.58
2001-2002	0.69	1.85
2002-2003	0.23	1.11
2003-2004	0.13	0.88

New Product Development : The Corporation offers a wide product range to cater to the different needs of all segments of its customers. There are plans for the newborn child as well as aged persons. As at the end of the Financial year 2003-04 the Corporation had 45 plans.

During the year LIC introduced a government-subsidised scheme **Varishtha Pension Bima Yojana (Table No 161)** – an immediate annuity plan with return of purchase price on death, with a guaranteed return of at least 9% pa. The other 4 plans introduced were **LIC's Jeevan Shree I (Table No 162)** – an endowment assurance plan with limited premium paying terms, guaranteed additions for first 5 years and bonuses thereafter, **LIC's Jeevan Akshay II (Table No 163)** – an immediated annuity plan, **LIC's Anmol Jeevan I (Table No 164)** – a pure term assurance plan and **LIC's Jeevan Saral (Table No 165)** – an endowment assurance plan offering death cover linked to premium and maturity benefit linked to age of policyholder and term of policy.

In addition to the above plans, **Term Assurance Rider** was revised and **Critical Illness Rider** was introduced during the year. These riders can be attached to policies under various plans.

VALUATION:

The latest annual valuation conducted by LIC is on 31.3.2004. The simple reversionary bonus rates declared are:

Plan Group	Premium Paying Term	Reversionary Bonus Rates	Interim Bonus Rates
Whole Life		80.00	71.00
Endowment Group*	<= 5	38.00	34.00
	6 to 10	38.00	34.00
	11 to 15	45.00	40.00
	16 to 20	51.00	45.00
	>= 21	57.00	50.00
Money Back	12	37.00	32.00
	15	37.00	32.00
	20	46.00	41.00
	25	51.00	45.00
Jeevan Surabhi	15	40.00	35.00
	20	48.00	42.00
	25	57.00	50.00
Jeevan Mitra, and	11 to 15	48.00	42.00
Jeevan Sathi	16 to 20	52.00	46.00
	>=21	58.00	51.00
Limited Premium	<= 15	48.00	42.00
Payment Endowment	16 to 20	52.00	46.00
	>= 21	58.00	51.00
Jeevan Anand	<= 5	34.00	30.00
	6 to 10	38.00	34.00
	11 to 15	43.00	38.00
	16 to 20	49.00	43.00
	>= 21	53.00	47.00
Jeevan Rekha	<= 5	57.00	50.00
	6 to 10	57.00	50.00
	11 to 15	51.00	45.00
	16 to 20	45.00	40.00
	>=21	39.00	34.00
New Jeevan Dhara- I,	<= 5	18.00	18.00
New Jeevan	6 to 10	20.00	20.00
Suraksha – I	11 to 15	22.00	22.00
	>= 16	24.00	24.00

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

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.

Reinsurance : The reinsurance programme for 2003-04 was designed to minimize the risk to the Corporation by getting the maximum cover at the least cost.

Foreign Operations : The Corporation directly operates, through its Branch Offices in Fiji at Suva & Lautoka, in Mauritius at Port Louis and in the U.K. at Wembley,. During the year 2003-04, these foreign Branches of the Corporation together issued 11,539Policies with Sum Assured of US $ 80.74 Million and First premium Income of US $ 1.42 Million . The total business in force of foreign branches as on 31st March , 2004 was US $ 511.23 Million Sum Assured under 93,855 policies.

3.14 **General Insurance Corporation of India (GIC)**: General Insurance Corporation (GIC) was approved as the “Indian Reinsurer” on 3rd November 2000. As the “Indian Reinsurer” GIC has been giving reinsurance support to four public sector and other private general insurance companies. The Corporation has commenced full-fledged life reinsurance operations 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.3,000 crores from Rs.1,500 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.4,162.98 crores, as against Rs.3,832.79 crores in the previous year resulting in a growth of 8.6%. The net incurred claims were at Rs.2,895.36 crores, i.e., 72.53% as against Rs.2,744.40 crores in the previous year , i.e., 86.13%. Corporation has recorded a profit of Rs.1,038.00 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.

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 96 Regional Offices, 1,380 Divisional Offices, 2,813 Branch Offices in India and 34 overseas offices. The gross premium income of these companies during 2003-04 was Rs.14,285 crores as against Rs.13,521 crores during 2002-03, representing a growth of 5.62%. The net worth of these four companies as on 31st March, 2004 stood at Rs.7,029 crores. Profits after tax for the year 2003-04 increased to Rs.1,364 crores from Rs.627 crores in 2002-03. The companies have paid a total dividend of 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 have decreased to 85.8% in 2003-04 from 90.6% in 2002-03.

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 up to Rs.30,000/- towards hospitalisation 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 up to a 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.

3.15 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.1,500 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.

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), oilseeds and annual horticultural / commercial crops for which past yield data is available for adequate number of years. Currently eleven annual commercial/ horticultural crops are covered, viz. sugarcane, potato, cotton, ginger, onion, turmeric, chilly, jute, tapioca, annual banana and pineapple. All other annual horticultural/commercial crops will be covered subject to the availability of 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, other millets & 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 rate whichever is less, while for cereals, other millets & 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 premium is to be phased out under the scheme on a sunset basis over a period of five years.

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, Meghalaya, Orissa, Rajasthan, Sikkim, Tamil Nadu, Tripura, Uttar Pradesh, Uttranchal, West Bengal, Andaman & Nicobar Islands and Pondicherry.

The performance under National Agriculture Insurance Scheme (NAIS) during 2003-04, is given in the following table:

(Rs. in Crore)

Particulars	Kharif 2003	Rabi 2003-04	Kharif 2004*
Farmers covered	79,70,830	44,10,151	127,37,279
Sum Insured	8,114.12	3,052.55	12,464.64
Premium	283.33	64.39	439.20
Claims Paid	633.24	217.27	0.00
Claims Payable	9.95	272.86	0.92

* *Provisional*

Farm Income Insurance Scheme (FIIS): Under the scheme, farmers' production and price risks for cultivated crops are protected by insuring minimum guaranteed income. If the actual income of the farmers falls short of the guaranteed income (product of average yield and MSP), they are be eligible for compensation to the extent of indemnity from the insurance company. The scheme was implemented on pilot basis in Rabi 2003-04 in 18 selected districts of 12 States for wheat and paddy. The premium rates under the scheme is based on actuarial calculation. Government of India provides subsidy of 75 per cent of the premium for small/ marginal farmers and 50 per cent for others. During Rabi 2003-04, a total of 1.8 lakh farmers were covered over an area of 1.9 lakh hectares. Premium amounting to Rs. 14.1 crores was generated as against the sum insured of Rs. 239 crores. Claims to the tune of Rs. 1.5 crores have been paid for the season. The scheme continued during Kharif 2004 season also covering 20 districts in four states covering a total of 2.22 lakh farmers over an area of 2.02 lakh hectares. Premium amounting to Rs. 15.68 crores was generated against a sum insured of Rs. 177.56 crores.

3.16 Audit Paras : During the year 2004, 31 draft audit paras against GIC/ four public sector general insurance companies were received from the C&AG out of which 5 paras are pending to be replied to the C&AG.

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 2004, 15 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. During the year, the Report of the Twelfth Finance Commission was processed by Budget Division and Tabled in Parliament.

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.

4.2 Public Debt and Cash Management

4.2.1 Public debt of the Central Government has witnessed a steady growth due to persistent recourse to deficit financing. Over time however, the pattern of financing fiscal deficit has undergone a significant change and greater reliance has been placed on open market borrowings, which also constitutes the cheapest source of funds.

4.2.2. The Central Government's normal borrowing through issue of dated securities was budgeted at Rs.149817 crore (Gross) and Rs.90501 crore (net of repayment) during 2004-05. The actual issue of dated securities during the year (upto January 31, 2005) has, however, been lower at Rs.75000 crore (Gross) and Rs.41224 crore (Net). These issues included Floating Rate Bonds (FRBs) amounting to Rs.22350 crore issued in five tranches. During the year, Government continued with the policy of announcement of half yearly market borrowing calendar based on its core borrowing requirements. The Government also issued dated securities amounting to Rs.25000 crore under Market Stabilization Scheme (MSS). During the current year (upto January 31, 2005), the gross market borrowings of the State Governments amounted to Rs.35637 crore (Rs.34752 crore through tap issues and Rs.885 crore through auctions) including Rs.16192 crore under the Debt Swap Scheme (DSS).

4.2.3 The weighted average cost of Central Government market borrowings through issue of dated securities has witnessed a marginal increase from 5.74% in 2003-04 to 6.03% in 2004-05 (upto January 31, 2005) after witnessing a continuous decline from 11.86% in 1998-99. However, the weighted average coupon on the outstanding stock of government securities has declined to 8.92% as on January 31, 2005 as compared to 9.30% as at the end of March 2004 and 10.44% at end of March, 2003. The weighted average yield of State Government securities during 2004-05 (upto January 31, 2005) was 6.32% as compared to 6.13% during 2003-04.

4.2.4 The weighted average maturities of Central Government securities during current year (upto January 31, 2005) work out to 13.84 years as compared to 14.94 years during 2003-04. As regards State Government securities the weighted average maturity has declined from 11.01 years in 2003-04 to 9.81 years during 2004-05 (upto January 31, 2005).

4.2.5 The earlier practice of allocations to State Financial Institutions and State Land Development Banks under the approved Market Borrowing Programme has been discontinued with effect from FY 2003-04.

4.2.6 The limit of Ways & Means Advance (WMA) for the Central Government was retained at Rs.10000 crore for April, 2004 -September, 2004 period and Rs.6000 crore for October, 2004 - March, 2005 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 accounts was placed in surplus position for long period and it did not take recourse to WMA on any day after September 9, 2004.

4.2.7 The arrangement regarding investment of surplus cash balances of Central Government was modified on more than one occasion during the year. First, in view of the need by the RBI to preserve its existing stock of securities for conduct of monetary policy operations, investment of the Central Government's surplus cash balances in dated securities was discontinued temporarily from April 8, 2004. It was restored with initial ceiling of Rs.10000 crore with effect from June 12, 2004 and subsequently hiked to Rs.20000 crore since October 14, 2004.

4.2.8 In addition to open market borrowings, Central Government raises resources through two other Schemes, namely - (a) 8% Savings (taxable) Bonds, 2003 and (b) 6.5% Savings (Non-taxable) Bonds, 2003. Relief Bonds Schemes were discontinued with effect from March 1, 2003. With the decision to launch Senior Citizens Savings Scheme in Budget 2004-05, 6.5% Savings (Non-taxable) Bonds Scheme was also discontinued with effect from close of business on July 9, 2004.

4.2.9 Central Government also issues 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. In addition, 91 days treasury bills [weekly Rs.1500 crore (gross)] and 364 days treasury bills [fortnightly Rs.1000 crore (gross)] have also been issued under

Market Stabilization Scheme (MSS). 14 days Intermediate Treasury Bills are available only for the investment of short term surplus funds by the State Governments.

4.2.10 To enable RBI to better manage liquidity situation in the economy arising largely on account of large foreign exchange inflows, RBI & GOI had signed a Memorandum of Understanding (MOU) regarding Market Stabilization Scheme, which basically entails that GOI, on the advice of RBI, will borrow funds through dated securities and treasury bills and sequester the same in a separate account. The funds will be not 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 utilized by Government. The Scheme came into effect from April 1, 2004. The initial ceiling of Rs.60000 crore of aggregate outstanding balance for the year 2004-05 was increased to Rs.80000 crore. The total outstanding amount absorbed under MSS as on January 31, 2005 amounted to Rs.54499 crore; Rs.25000 crore through dated securities and Rs.29499 crore through Treasury Bills.

4.2.11 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 Bill has been referred to the Standing Committee on Finance.

4.2.12 The pilot scheme of Cash Management System in nine high spending departments/ministries of the Central Government was continued during the year. In order to examine the working of the Pilot Scheme, suggest changes to improve its working and feasibility of extending the same to other departments/ ministries, a Sub-Group was constituted under the chairmanship of Chief General Manager-in-Charge of Internal Debt Management Department (IDMD) of RBI. The Sub-Group submitted its Report on January 20, 2005 to Finance Ministry. The recommendations of the Sub-Group have been accepted for phased implementation.

4.2.13 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.

4.2.14 Also, to reduce the costs of financing the fiscal deficit and for better cash management, Special Deposit Scheme for LIC, GIC, etc. and Deposit Scheme for Central Public Sector Undertakings have been discontinued with effect from October 1, 2004 and January 1, 2005.

4.3 NATIONAL SAVINGS:

4.3.1 Senior Citizens Savings Scheme

A new small savings scheme called the Senior Citizens Savings Scheme, 2004 (SCSS), has been introduced with effect from 2nd August 2004 for the benefit of senior citizens of 60 years of age and above. The 5-year scheme carries a higher than market rate of interest of 9 per cent per annum, payable quarterly. Retired persons of the age of 55 years or above but less than 60 years are also eligible to invest their retirement benefits limited to the maximum deposit ceiling of Rs.15 lakhs under the scheme. The scheme which was initially introduced through post offices is now in operation through designated branches of public sector banks as well. The details of the scheme are available on the official web site of the Ministry of Finance.

4.3.2 Discontinuation of Deposit Schemes for Retiring Employees (DSREs)

Pursuant to the introduction of the Senior Citizens Savings Scheme, fresh deposits under the Deposit Scheme for Retiring Government Employees, 1989 and the Deposit Scheme for Retiring Employees of Public Sector Companies, 1991 have been discontinued with effect from 10th July, 2004. No interest shall also be payable on the deposits in the existing accounts under both these scheme from 13th September, 2004 or date of maturity, whichever is later.

4.3.3. System of 'at source' commission payments

The system of 'at source' commission payments to the Public Provident Fund (PPF) agents, has been introduced with effect from the 1st June, 2004. The system facilitates agents in getting their commission due on the investments mobilized by them, immediately at the time of deposit of their mobilization at the post offices/banks, and for which, they are not required to submit any claim/bill. The said system was already in operation since 1st May, 2000 in respect of the agents working under Standarised Agency System (SAS), Mahila Pradhan Kshetriya Bachat Yojana (MPKBY), and Pay Roll Savings Group Scheme (PRSG).

4.3.4. Small Savings Collections

The gross small savings collections (including DSREs) during 2004-05 (upto December, 2004) were Rs. 126023 crore as against the collection of Rs. 101685 crore during the same period last year. The net collections (gross collections minus repayments to depositors) during the same period were Rs. 67069 crore as against Rs. 46781 crore last year. The entire net collections are being transferred to the Government of States and Union Territories (with legislature), as investment of the National Small Savings Fund in special securities issued by these Governments. An amount of Rs. 74318 crore has been transferred as share of net small savings collections to the States and Union Territories (with legislature) upto 31st January, 2005 during the current fiscal year as against the sum of Rs. 54873 crore transferred during the corresponding period last year.

4.5 Hindi Branch

4.5.1 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.

4.5.2 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, and Twelfth Finance Commission Report etc. During 2004-2005 Hindi Branch translated 8 agreements.

5. PSE DIVISION

5.1 The PSE Division deals with the following subjects:-

1. Matters relating to Disinvestment programme of the Government.
2. Issue of Tax-Free Bonds by Municipal Bodies.

5.2 Disinvestment policy

The PSE Division plays an important role in offering 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 and represents the Ministry of Finance in the Inter Ministerial discussions on specific issues.

Disinvestment proceeds were targeted to be Rs.4000 crore during 2004-05. As against this, the Revised Estimates for the year is Rs.4.091 crore. No provision for disinvestment receipts has been made in the Budget Estimates of 2005-06.

5.3 Issue of Tax-Free Bonds by Municipal Bodies

PSE Division processes proposals for issue of Tax Free Bonds by Municipal Bodies. It fixes the ceiling for issue of Tax Free Municipal Bonds to be issued by Municipal Bodies to raise their resources for capital investment in urban infrastructure. The power of notification of these bonds earlier with the Department of Economic Affairs was transferred to Department of Revenue during the current year. A ceiling of Rs.300 crore was fixed for Tax Free Bonds to be issued by Municipal Bodies during 2004-05. Against this, an amount of Rs.150 crore has already been raised by various Municipal Bodies and it is expected that the entire allocation would be utilized by the end of the financial year.

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

6.1 Introductory para highlighting the performance and achievements of your Division/ Department during the year:

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 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 seeks to replace the ordinance has been passed by both the houses of the Parliament has become an 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 Regularisation) Scheme, 2004

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

(iv) Amendments to the SEBI (Stock Brokers and Sub-Brokers) Regulations

In recognition of the regional stock exchanges acting as subsidiaries of national level exchanges SEBI has allowed the brokers of such regional exchanges which act as sub-brokers of national level exchanges to continue with the existing business model of issuing notes to clients and transacting directly with the clients subject to certain safeguards and conditions.

(v) 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 had already been launched in Stock Exchange, Mumbai (BSE) on January 7, 2005.

(vi) Securities Transaction Tax (STT)

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

(vii) 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.

(viii) 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 recognised by BIS and IOSCO.

(ix) Convergence of commodity derivatives and securities derivatives markets

In Budget 2004-05, it was announced that the Government shall initiate steps to integrate the commodities markets and securities markets. High level discussions have taken place to examine the legal, regulatory and transition related issues. In view of the sensitivity of the issue, further dialogue will continue before the strategy is finalised.

(x) Capital Markets

A number of regulatory reforms were introduced to improve the efficiency of the capital market as also to ensure the protection of interest of investors. SEBI (Buyback of Securities Regulations) Regulations, 1998 were amended to prohibit buyback of its shares so as to delist its shares from the stock exchange. SEBI (Central Database of Market Participants) Regulations, 2003 were amended and a gradual time schedule is prescribed to require that unique identification numbers are obtained by various investors. This will help in enforcing compliance and monitoring surveillance. The calendar year 2004 has also seen emergence of a new primary market - lesser but large quality issues, raising huge sums of money, which is unparalleled in the history of Indian Capital Market.

(xi) Pension Reforms

The New Pension System (NPS), which is based on defined contribution, was introduced with effect from January 1, 2004 for Central Government employees recruited on or after that date, (except to Armed Forces, in the first stage) replacing the existing defined benefit pension system. Pursuant to budget announcement in 2004-05 regarding proposing a suitable legislation to provide a regulatory framework for the NPS, the Pension Fund Regulatory and Development Authority Ordinance, 2004 (No. 8 of 2004) was promulgated on 29th December 2004.

The objective of the Government was to have a dedicated regulator for the pension sector (on the lines of SEBI and IRDA) to promote old age income security by establishing, developing and regulating pension funds, to protect the interests of subscribers of pension funds and for related matters.

The tax treatment of contributions made under the NPS was also announced in the Budget 2004-05. The universally accepted formula of EET (Exempt, Exempt, Tax) has been adopted, that is, the contributions are excluded from income for tax purposes; the accruals are also exempt from tax; and only the terminal benefits will be taxed at the applicable rate in the year of receipt. The Finance Act 2004 gives effect to this announcement by inserting a new section 80CCD in the Income Tax Act.

6.2 A brief para about the functions/working of organisation and set up of your Division including its various Advisory Boards and Councils in a brief and concise form:

6.2.1 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) and the erstwhile Unit Trust of India (UTI). The Division is also taking a closer look at the extent of coverage, liabilities under existing pension schemes for Central Government employees and way forward to reforms in this sector in consultation with other concerned departments/agencies. The Division has five branches viz. The Capital Market Section, the Stock Exchange Section, the External Commercial Borrowings (ECB) and Pension Reforms (PR) Section, the Exchange Management Section and the Joint Parliamentary Committee and Unit Trust of India Section (JPC & UTI).

6.2.2 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;

· Organisational 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 and 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. At present Secretary (Expenditure) is the Ministry's nominee on the 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.

6.2.3 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 convenor of the HLCCFCM to examine capital market policy issues as required, put together the agenda for HLCCFM meetings and follow up on its decisions.

6.2.4 The Joint Parliamentary Cell have been set up in this Division to monitor action taken on the recommendations of the Joint Parliamentary Committee on stock market scam submitted in December, 2002.

6.2.5 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.

6.2.6 Functions of the ECB & Pension Reforms Section

The major functions of the ECB and Pension Reforms Division (ECB & PR Division) 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 where ever 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 Organisation (EPFO) and agenda items for meetings of the Central Board of Trustees of EPFO, of which Joint Secretary (Capital Markets) is a member. The section 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 Recordkeeping 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.

6.2.7 Functions of the JPC & UTI Sections

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

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

6.3 Information about the performance/achievements upto the last year

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

(i) T + 2 Rolling Settlement

The 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.

(ii) 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.

(iii) 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.

(iv) 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.

(v) 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 exchange 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.

(vi) 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.

(vii) Repeal of UTI Act, 1963

In relation to the problems being faced by the Unit Trust of India (UTI), the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002 was passed during the winter session of Parliament in 2002 in order to find a one time solution, while honoring the commitment towards investors of the US-64 scheme and Assured Return Schemes (ARSs). The Act, inter alia, provided that the undertaking specified in Schedule I to the Act (comprising of US-64, Assured Return Schemes and Development Reserve Fund) will be transferred and vest in an Administrator and the undertaking specified in the Schedule II (comprising of NAV based schemes) will vest in a specified company from an Appointed Day.

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 effective from 1st February, 03.

(viii) 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.

(ix) 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.

(x) 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.

(xi) 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.

(xii) Amendments to the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997

Various amendments to these regulations were carried out, notified on 9th September, 02, including, inter alia, relaxation for disinvestment by state PSUs, removal of automatic exemption in respect of acquisition through preferential allotment, additional disclosure requirements, change of control through special resolution instead of ordinary resolution, additional parameters for determination of offer price, reduction in creeping acquisition limit from 10% to 5% with effect from 01.10.02, etc.

Further, SEBI has introduced an amnesty scheme under its (Substantial Acquisition of Shares and Take-overs) Regulations, 1997 to enable individuals and companies to disclose irregularities in reporting of acquisition of shares

(xiii) 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.

(xiv) 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.

(xv) 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.

(xvi) 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.

(xvii) Pension Reforms

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 salient features of the NPS include defined contribution by the employee as well as a matching contribution by Central Government, as an employer, and individual investment choices based on risk return preferences of the subscriber. Till the full architecture of the NPS is in place an interim arrangement has been established. The Central Pension Accounting Office of the Department of Expenditure is acting as an interim central recordkeeping agency and contributions are being credited into public account earning a rate equivalent to the General Provident Fund rate.

(xviii) 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.

6.4 Information about the performance/achievements during the year under review

6.4.1 Stock Exchange Section

(i) Corporatisation and Demutualisation of Stock Exchanges

In pursuance to the undertaking given to JPC, the Securities Laws (Amendment) Ordinance, 2004 was promulgated on October 12, 2004 to give effect to corporatisation and demutualisation of Stock Exchanges. The main purpose of the ordinance was to ensure compulsory corporatisation and demutualisation of stock exchanges to strengthen their governance and avoid conflict of interests in the stock exchanges. The Ordinance also envisaged stern penalties, provisions for appeal and procedure for compounding of offences and grant of immunity. The Securities Laws (Amendment), 2004 which seeks to replace the Ordinance has been passed by both the houses of the Parliament and has been enacted as Act No.1 of 2005.

Corporatisation and Demutualisation of Stock Exchanges is also in line with the UPA Government's national common minimum programme, which promises orderly development and functioning of the capital market, reflecting the true fundamentals of the economy.

Salient features of the amendments to the Securities Contracts (Regulation) Act, 1956 (SCRA) include the following:

(i) Definitions of corporatisation and demutualisation and scheme thereof;

(ii) Limiting the organizational form of a stock exchange to a corporate entity;

(iii) A time frame of 12 months, extendable by another 12 months, for divestment of the shares by brokers as shareholders;

(iv) Restriction of voting rights of broker shareholders and brokers' participation on governing boards to address the problem of mis-governance inherent in them, whose organizational form is mutual.

(ii) Alternative platform for small and medium enterprises

Budget 2004-05 envisaged the creation of an alternative platform for small and medium enterprises (SMEs) to raise equity and debt from the capital market. Section 13 of the Securities Contracts (Regulation) Act 1956, SC(R) A has been amended for this purpose by the Securities Laws (Amendment), Act, 2004. This makes it is possible to create such a trading platform as per bye-laws made by the Stock Exchanges and approved by SEBI. In this regard, Indonext has been launched on the BSE on January 7,2005. As many as 520 such companies will trade on the IndoNext platform of the BSE. IndoNext will provide the much-needed liquidity to the stocks of these small and medium companies.

(iii) Investment by Foreign Institutional Investors (FIIs)

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 Simpler And Quicker For FIIs:** The SEBI has reduced the turnaround time for processing of FII applications for registrations from 13 working days to 7 working days except in the case of Banks and its subsidiaries.

- **Investment Ceiling For FIIs In Debt Funds Raised From US$ 1billion To US $ 1.75 Billion:** SEBI issued a circular dated November 2, 2004 giving effect to the following:

1. Overall investment limit under the 70:30 route in dated Government securities and treasury bills is raised from US $ 100 million to US $ 200 million.

2. A 'headroom' of US $25 million has been decided i.e. FIIs/SAs are free to invest till the total investment reaches US $175 million. Thereafter, the FIIs/SAs will have to approach SEBI for prior approval of limit allocation..

3. Individual debt investment limits earlier allocated for 100% FIIs/Sub-Accounts will be realigned based on the remaining available limit of US$ 1550 million out of the overall cap of US $1.75 billion and the revised limits will be advised to the 100% debt FIIs/Sub-Accounts separately.

A separate cumulative sub-ceiling of US $ 500 million was prescribed for corporate debt.

FII investment in 2004 was USD 9205.1 million (the highest in any calendar year till now) and during April to December 2004 were USD 6350.1 million. The corresponding figures for FII inflows in calendar year 2003 was USD 7590.3 million and during April to December 2003 was USD 7094.7 million, respectively.

(iv) Market Participants and Investors (MAPIN) Database

The SEBI (Central Database of Market Participants) Regulations, 2003 notified on November 20, 2003, and amended on July 21, 2004, provide for the creation of a centralized database of Market Participants and Investors (MAPIN database) for the registration of all the participants i.e. intermediaries, listed companies, investors, etc. in the Indian securities market by allotting a Unique Identification Number (UIN).As on December 13,2004, 58084 individuals (which includes Directors of companies and intermediaries), 4796 intermediaries and 3973 corporate investors have given the bio-metric identification through finger printing and obtained the Unique Identification numbers under the SEBI Regulations. This measure would enable the regulator to ensure regulatory compliance including improving its surveillance capacity.

(v) SEBI (Interest Liability Regularisation) Scheme, 2004

The determination and collection of turnover-based fees has been a very contentious issue for the past 12 years. During this year, SEBI has been able to resolve this longstanding issue.

In July 2004, SEBI launched the SEBI (Interest Liability Regularisation) Scheme, 2004. In terms of the Scheme, if a stockbroker pays entire outstanding (as on 1st October 2004) principal amount of fee as well as 20% of the outstanding interest as on a specified date during the regularization period, the balance outstanding interest will be waived.

(vi) Securities Transaction Tax (STT)

A new tax, viz., Securities Transaction Tax (STT) was introduced in Budget 2004-05. After many representations, the Finance Minister announced a revised Securities Transaction Tax (STT) structure and rates after careful deliberations with various market intermediaries. According to the revised proposal, different rates of STT have been specified for delivery-based transactions and non-delivery based transactions. STT is to be levied on delivery based trade in equity at the rate of 0.15% and would be split equally between the buyer and the seller. For day-traders and arbitrageurs, the rate is 0.015% and they will be allowed to take credit for STT against business tax on profits arising from transactions covered by STT. The rate of STT on F&O segment of the market has been fixed at 0.01% and derivatives traders would be allowed credit for STT against business tax on profits arising out of transactions covered by STT. Buying and selling of bonds, including Government bonds, will be completely exempt from STT.

The imposition of STT was a part of the strategy to rationalize the tax structure for capital market. In pursuance to this objective, long term capital gains was abolished and short term gains was reduced to 10 per cent.

(vii) Amendments to the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992

The Amendments to the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 in September, 2003 were modified prohibiting sub-brokers from issuing notes/confirmation memos to their clients, receiving securities and payment from clients and making payments and delivering securities to clients. Further, according to the Model Tripartite Agreement between Broker, Sub-broker and Clients, the stock broker shall issue individually for each client of his sub-broker the prescribed contract notes and that the transaction on behalf of the clients of the sub-brokers shall be settled by delivery and/or payment between the stock broker and the clients. Following the representations from various fora, SEBI has proposed that regional stock exchanges activities subsidiaries of national level exchanges and their sub-brokers be allowed to be exempted from the applicability of the amendments made on September 23, 2003, subject to certain safeguards and conditions.

(viii) Straight Through Processing (STP)

STP aims to automate the entire process from trade initiation to settlement. With STP, firms would automate processes within themselves and then be able to communicate with multiple trading partners using multiple communication standards with ease and flexibility. The benefits of STP are that it (i) reduces risk leading to fewer trade fails, (ii) improves operational efficiency in handling larger volumes, (iii) facilitates movement towards shorter settlement cycle, (iv) enables increased cross border trading (FII trades), (v) provides transparency with clear audit trail, (vi) enables better market surveillance with real time information to regulators, and (vii) increases competitive advantage of the market. The STP is proposed to be implemented in phases. The first phase of STP implementation focused on connectivity between the broker and the custodian and between the fund manager and the custodian. This was extended to all institutional trades. This would enable issue of electronic contract notes by broker to custodians and fund managers and avoid the mismatches, which results in non-confirmation of trades by custodians.

(ix) Real Time Gross Settlement System

RBI has introduced the Real Time Gross Settlement System (RTGS) in 2004 on experimental basis wherein the settlement of all transactions is done instantly on a gross basis. RTGS will allow real delivery vs. payment, which is the international norm recognized by BIS and IOSCO. This would help in the enforcement of scrip-less settlement, i.e. an efficient Electronic Fund Transfer mechanism wherein transfer of funds from one account to another would take place by electronic means, is essential to reduce the dependence on cheques and thus settlement risks. Certain improvements in the existing funds transfer mechanisms have been operationalised, as a result of which the time taken for inter-city movement of funds has come down.

(x) Convergence of commodity derivatives and securities derivatives markets

In Budget 2004-05, it was announced that the Government shall initiate steps to integrate the commodities markets and securities markets. High level discussions have taken place to examine the legal, regulatory and transition related issues. In view of the sensitivity of the issue, further dialogue will continue before the strategy is finalised.

6.4.2 Capital Market

(i) A number of regulatory reforms were introduced to improve the efficiency of the capital market as also to ensure the protection of interest of investors. SEBI (Buyback of Securities Regulations) Regulations, 1998 were amended to prohibit buyback of its shares so as to delist its shares from the stock exchange. SEBI (Central Database of Market Participants) Regulations, 2003 were amended and a gradual time schedule is prescribed to require that unique identification numbers are obtained by various investors. This will help in enforcing compliance and monitoring surveillance. The calendar year 2004 has also seen emergence of a new primary market - lesser but large quality issues, raising huge sums of money, which is unparalleled in the history of Indian Capital Market.

(ii) This section has also been entrusted the work to redress the investor's complaints and to ensure safety and protection of investors. During the last calendar year, 2698 complaints have been received. Out of which 1526 complaints have been forwarded to Securities and Exchange Board of India, 417 complaints to Reserve Bank of India, 665 to Unit Trust of India and 665 complaints have been sent to Department of Company Affairs. The complaints received from investors through postal as well as electronic mail are sorted out on the basis of nature of complaints. VIP references are sorted out from the general complaint. These are forwarded to the regulatory agencies immediately. All the complaints received in the section are acknowledged.

6.4.3 External Commercial Borrowings

(i) During the Budget Speech of 2004-05, the Finance Minister had proposed that, as a part of the overall process of making the Indian capital market strong and attractive, inter-alia, the investment ceiling for FIIs in debt funds will be raised from USD 1 billion to USD 1.75 billion.

(ii) In line with the announcement made in Budget Speech, the ceiling for FII investments in debt funds has been fixed at USD 1.75 billion for 2004-05. The cap of USD 1.75 billion will be applicable to FII investments in dated Government Securities and Treasury Bills only, both under 100% debt route and the general 70:30 route. On the similar principle of limiting the short-term debt flows, a cumulative sub-ceiling of USD 500 million outstanding has been fixed for FII investments in corporate debt and this would be over and above the sub-ceiling of USD 1.75 billion for the Government debt. Also, the ceiling for FII investments in Government securities and for corporate debt is not fungible.

(iii) Review of ECB Guidelines

External Commercial Borrowings are being permitted as an additional source of funds to Indian corporates and PSUs for financing expansion of existing capacity as well as for fresh investment, augmenting the resources available domestically. ECB refers to commercial loans, [in the form of bank loans, buyers' credit, suppliers' credit, securitised instruments (e.g. floating rate notes and fixed rate bonds)] availed from non-resident lenders with minimum average maturity of 3 years. ECBs are approved within an overall annual ceiling, consistent with prudent debt management, keeping in view the balance of payments position and level of foreign exchange reserves of the country.

(iv) The Government of India periodically in consultation with Reserve Bank of India reviews ECB policies in order to enable Indian corporates, to have greater access to international capital market. With a view to replace temporary measures relating to ECB announced on November 14, 2003 with more transparent and simplified policies and procedure, a review was undertaken in January, 2004 and the revised policy were notified by RBI under FEMA on January 31, 2004. The review was based on current macro economic situation, challenges faced in external sector management and the experience gained so far in administering ECB policy.

(v) Some of the salient features of the revised ECB guidelines are as under:-

- ECB can be accessed under two routes, viz. Automatic Route and Approval Route.
- **Automatic Route**: ECB up to USD 500 million equivalent can be raised under the Automatic Route. Borrower may enter into loan agreement with recognised overseas lenders for raising ECB under the Automatic Route without prior approval of RBI. However, the borrower will have to comply with the reporting requirements as stipulated by RBI. The primary responsibility to ensure that ECB raised/ utilised are in conformity with the ECB guidelines and the Reserve Bank regulations/directions/circulars is that of concerned borrower.
- **Approval Route**: Following types of proposals for ECB will be covered under the approval route:

(a) Financial Institutions dealing exclusively with infrastructure or export finance such as IDFC, IL&FS, IRCON, and Exim Bank will be considered on a case by case basis;

(b) Banks and financial institutions which had participated in the textile or steel sector restructuring package as approved by the Government will also be permitted to the extent of their investment in the package and assessment by RBI based on prudential norms. Any ECB availed for this purpose so far will be deducted from their entitlement;

(c) Cases falling outside the purview of the automatic route limits.

- The restriction on ECBs for investment in capital markets or in real estate continue. All corporates, except banks, NBFCs and financial institutions are eligible ECB borrowers. Banks and financial institutions which had participated in the textile or steel sector restructuring package as approved by the Government, will also be permitted to the extent of their investment in the package.
- **Average Maturity**

(a) ECB up to USD 20 million equivalent with minimum average maturity of three years.

(b) ECB above USD 20 million and up to USD 500 million or equivalent with average maturity of 5 years.

- **All-in-cost ceilings**: The current all-in-cost ceilings are:

Minimum Average Maturity Period	All-in-cost Ceilings over six month LIBOR*
Three years and up to five years	200 basis points
More than five years	350 basis points

* for the respective currency of borrowing or applicable benchmark.

- **End-use**: ECB can be raised only for investment (such as import of capital goods, new projects, modernization/ expansion of existing production units) in real sector - industrial sector, including small and medium enterprises (SME) and infrastructure sector - in India.
- **Prepayment**: Prepayment of ECB up to USD 100 million is permitted without prior approval of RBI, subject to compliance with the stipulated minimum average maturity period as applicable for the loan.
- **Foreign Currency Convertible Bonds (FCCBs):** The liberalisation made for ECB has also been extended to FCCBs with regard to spreads, end-restrictions, procedures etc.

(vi) ECB Approvals

The total ECB/FCCB approvals amounted to USD 7.3 billion during April-November, 2004 as compared with USD 4.2 billion in April-November, 2003 on a comparable basis .

The details of ECB/FCCB approvals are as under:

(in USD Million)

Items	2003-04*	2004-05 (April-November) #	2003-04 (April-November)*
Automatic route	4,155	6,725.5	2,317
RBI approval route	1,129	621.5	701
Approval given by Government	1,387	N.A.	1,141
Grand Total	**6,671**	**7,347**	**4,159**

* Based on the loan agreement taken on record under the Automatic & Government routes and approval under the RBI route.

\# Registered with RBI both under Automatic and Approval routes.

(vii) International Ratings

S&P upgraded their outlook on their ratings for India on February 2, 2005. Their current long-term foreign currency rating is BB+ (below investment grade) with a stable outlook and their long-term local currency rating is BB+ with a stable outlook. They cite high forex reserves, growing exports, non-debt creating inflows and a trend growth rate of about 6% in GDP as the reasons for revision in the outlook. Their concerns are the high public debt and fiscal inflexibility.

Moody's and Fitch both upgraded their outlook last year. Moody's foreign currency rating for India is Baa3 (investment grade) with a stable outlook while Fitch's current rating is BB+ with a stable outlook.

Japan Credit Rating Agency (JCRA) recently revised their outlook from negative to stable. Their rating is BBB, which is investment grade. Their revision is based on their judgement that India has become stable both politically and economically.

Recent Changes in Foreign Currency Ratings of India

Agency	Earlier Ratings & Outlook	New Ratings & Outlook
Moody's	Ba1 Outlook: Stable	Baa3 (Jan. 2004: investment grade after 6 years) Outlook: Stable
S &P	BB Outlook: Positive	BB+ Outlook: Stable (Feb 2005)
FITCH	BB Outlook: Stable	BB+ (Jan 2004) (highest grade in non-investment category) Outlook: Stable
JCRA	BBB Outlook: Negative	BBB (Sep 6, 2004) Outlook: Stable

Recent Changes in Local Currency Ratings of India

Moody's	Ba2 Outlook: Negative	Ba2 Outlook: Negative (Jan 2004)
S &P	BB+ Outlook: Stable	BB+ Outlook: Stable (Feb 2005)
FITCH	BB+	BB+
JCRA	-	BBB (newly assigned: Sep 6, 2004)

(viii) Pension Reforms

During the year under review, in line with the announcement made in the last year's Budget to propose legislative framework for the New Pension System (NPS), the Pension Fund Regulatory and Development Authority (PFRDA) Ordinance, 2004 was promulgated on 29th December 2004. Steps are being taken to introduce a Bill replacing the Ordinance during the Budget Session 2005 of Parliament.

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 are 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.

PFRDA will establish the institutional architecture of the NPS including the Central Recordkeeping Agency (CRA) and pension funds. It will also frame investment guidelines for pension funds. PFRDA is empowered to impose stringent penalties for any violation of the law. The regulator will also create a special fund, which will be used for educating and protecting the interests of subscribers to schemes of pension funds.

As mentioned earlier, till the NPS architecture is fully established, interim arrangements for recordkeeping and accounting were put in place. Several meetings were held during the year to review these arrangements. Detailed reviews of the recordkeeping and counting arrangements were done by IIEF for DEA.

As mentioned above, this Section formulates/reviews the investment guidelines for non-government provident/ superannuation and gratuity funds in consultation with the Budget Division of DEA, on the basis of recommendations from the Ministry of Labour/EPFO. During the year, a review of the investment guidelines, which were last modified in March 2003, was done to give more investment avenues to the funds. Revised investment guidelines were notified on 24th January, 2005.

6.4.4 JPC & UTI Section

6.4.4 (A) Unit Trust of India (UTI)

(i) 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.

(ii) 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 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.

(iii) 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 he capital market.

(iv) Foreclosure of Assured Return Scheme (ARS)

· All the ARSs, except for 3 have already been closed/ foreclosed by end August, 2004. 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), i.e., UTI-I and guaranteed by GOI. Presently, only 3 ARSs remain on the books of SUUTI

(v) 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 90% of the units of SUS-99 and the cumulative redemption value of the share purchase, including the accrued interest was Rs.5715 crores. Out of this amount, Rs.5550 crore have accrued to Government so far. The Government still holds 10% of the Units of SUS-99 whose market value (as on January 31, 2005) was Rs. 712 crore.

· 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 holder of the security.

6.4.4 (B) Joint Parliamentary Committee Cell

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. So far, three Progress Reports have been presented to the Parliament during December 2003, June, 2004 and December 2004.

Out of a total of 276 recommendations/ observations/ conclusions made by the JPC, action has already been completed on 204 recommendations. The number of pending recommendations has thus come down to 72. Next Progress Report is due to be presented before the Parliament during June, 2005.

6.4.5 Currency and 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.

(i) 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.

Production Figures:

(figures in crores)

S.No.	Item	2003-2004	Production for 1.4.2004 to 30.11.2004
01	Post Cards	3.2353	0.177
02	Ordinary Envelope	1.6383	0.8774
03	Registration Envelope	0.9893	0.5560
04	Inland Letter Cards	2.9838	1.9386
05	Aerogramme	0.4163	0.2757
06	Public Postage Stamps	3.1739	1.4453
07	Special Postage Comm. Stamps	19 issues	31 issues
08	Non-Postal Adhesive Stamps	1.9775	1.1184
09	Non-Judicial & Allied Stamps	17.6569	8.7010
10	NSC/KVP(Savings Instruments)	12.9006	7.4792
11	Non-MICR Cheques	0.3107	0.2923
12	MICR Cheques	4.6325	4.3260
13	Misc.Security Forms	2.2730	1.3748
14	Passports & Allied Booklets	0.3678	0.2588
15	Sticker/Labels/Cards/Seals	0.9250	0.2740

(ii) 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 and Bihar. It also prints Central Excise Stamps to cater to the need of entire country.

Item-wise production of this Press 2003-04 and upto 31-12-2004 are shown in the table below:

Figures in Crores

Item	2003-04 Production	1.4.2004 to 31.12.2004 Production
Post Card	16.66	18.97
Inland Letter card	10.35	5.46
Envelope	05.56	0.60
Central Excise Stamps	0	0
Non-Judicial Stamps	09.42	2.09
Forces Letters I.A.F.5	02.23	1.89
Forces Letters I.A.F.6	02.54	1.35
Green Envelopes		
Kisan Vikas Patras	01.90	0.30
Indian Postal Orders	0.00	3.16

(iii) 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 2004 in Note pieces:

Denomination	Output During the year 2003	Issued During the year 2003	Output During the year 2004	Issued During the year 2004
Rs.5	873,850,000	928,000,000	211,440,000	238,000,000
Rs.10	759,340,000	779,000,000	1,329,420,000	1,168,000,000
Rs.50	200,000,000	192,000,000	360,000,000	368,000,000
Rs.100	556,430,000	499,000,000	677,650,000	752,000,000
Rs.500	181,064,000	192,000,000	37,339,000	29,500,000
Rs.1000	23,483,000	20,000,000	77,440,000	82,300,000
TOTAL	**2,594,167,000**	**2,610,000,000**	**2,693,289,000**	**2,637,800,000**

(iv) 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 production lines, out of which three lines of old generations machines installed 32 years back are still being used alongwith two lines of the present generation machines installed in the year 1997-98.

The Ink Factory was also set up for manufacturing the security inks like Dry offset and Intaglio inks for the old generation of Intaglio process of printing. The supplies from the Ink factory includes liquid inks (Gravure) and Dry Offset inks for sister units like CNP, ISP, SPP,BRBNMPL and other Govt. presses. Apart from manufacturing the security inks, the expert opinion is also furnished on the counterfeit currency notes referred to BNP from various courts & investigating agencies. During the period 01-04-2004 to 31-12-2004, 140 cases were received for expert opinion consisting of 15,899 pieces of counterfeit notes.

The production and dispatches during the period 1-04-2004 to 31-12-2004, is given below:-

Denomination	Indent in millions	Production and dispatches	Level of satisfaction
Rs.20/-	400	371	93%
Rs.50/-	850	610	72%
Rs.100/-	600	509	85%
Rs.500/-	75	30	40%

It is noteworthy to mention that BNP is consistently meeting 100% production targets of RBI/Ministry.

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

Commissioned in the year 1967, the Security Paper Mill manufactures Bank Note Paper and other Security Papers and caters to the requirement of Security and Currency/ Bank Note Printing Presses. Prior to establishment of the Mill, the entire requirement of Security Paper and Bank Note Paper were being met by import. The actual finished production achieved during the year 2003-04 was 2563 MTs. Target production for 2004-05 is fixed at 2700 MTs. Target production for 2004-05 is fixed at 2700 MTs. against which the actual achievement till 31/12/2004 is 1730 MTs. The Rs.500/- denomination paper is being made first time at SPM.

(vi) Mints

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.

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

(vii) India Government Mint, Kolkata

a) The target of production of Coin of different denomination during 2004-05 is 300 m.pcs. (Million Pieces) whereas the actual production (upto 31-12-2004 is 224.6025 Million Pieces.

b) The Mint manufactured 1,64,836 pieces of medals and delivered 1,24,599 pieces during 2003-04 to various departments like Ministry of Finance, Home Affairs etc.

The Medals delivered during 2004-2005 (Upto 31.12.04) are 68599 pieces and manufactured 78,005 pieces.

c) During the year 2003-2004 the Mint produced 178 VIP sets of Commemorative Coins of Rs.100/-,Rs.2/- on 150 years "INDIAN RAILWAYS", 1940 sets of Commemorative Coins of Rs.100, Re.1/- on "Saint Dnyaneshwar", and 1530 sets of "Dr. S.P. Mukherjee" Commemorative Coin sets of denomination of Rs.100, Rs.50/-,Rs.10/- & Rs.2/-.

d) During the year 2004-2005(upto 31.12.04) the Mint manufactured 770 sets of Commemorative Coins of Rs.100, 50/-, 10/- & 2/- on "Dr. S.P. Mukherjee", 3300 sets of commemorative coins sets of denomination of Rs. 100, 50, 10 & 2. on "SANT TUKARAM". 1610 sets of commemorative coins of Rs.100/- &2/- on "INDIAN RAILWAYS" 160 VIP SETS OF COMMEMORATIVE COINS OF Rs.100/- & Rs.1/- on "150 YEARS OF INDIA POST". 35 VIP sets of commemorative coins of Rs.100/- & 2/- on 150 years of TELECOMMUNICATIONS".

(viii) 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	2000-2001 Target	2000-2001 Prod.	2001-2002 Target	2001-2002 Prod.	2002-2003 Target	2002-2003 Prod.	2003-2004 Target	2003-2004 Prod. (as on 31.3.04)
Rs.5	300	36	390	341	200	155	185	172
Rs.2	250	277	260	198	400	13	350	442
Re.1	250	353	360	470	550	791	375	226
50P	75	228	140	143	50	113	--	--
25P	50	116	--	--	--	--	--	--
10P	--	--	--	--	--	--	--	--
Tota	**925**	**1010**	**1150**	**1152**	**1200**	**1072**	**910**	**840**

(ix) India Government Mint, Cherlapally, Hyderabad

The overall production of coins in both the Mints for the year 2003-2004 was 680.9975 million pieces as against the target of 760 million pieces (Saifabad Mint - 237.7270 million pieces and Cherlapally Mint 443.2705 million pieces). The targeted production of coins for the year 2004-05 is 460 million pieces initially which was again changed to 300 million pieces during the last PPM meeting held on 8/11/2004 against which the Mint has produced 282.0510 million pieces upto 31/12/2004 (Saifabad Mint- 95.8510 million pieaces) and Cherlapalli Mint- 186.2000 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.

(x) India Government Mint, Mumbai

The targeted production of coins for the year 2003-2004 was 970 million pieces against which the Mint produced 869.00 million pieces. The targeted production of coins for the year 2004-2005 is 605 million pieces against which the Mint has so far produced 224.6272 (upto 31/12/2004) million pieces.

During the year 2004-2005 the Mint has produced commemorative coins as under:

Year	Theme	Proof/Uncirculated	For Circulation
2004-05	K.Kamaraj	1. Rs.100/- each 2. Rs.5/- each	Rs.5/-

The Mumbai Mint manufactured medals, tokens, dies, seals to T.T.D., Guruvayoor and Attukal Temple and weights & measures of various standard stamping equipments were delivered to all State Govt. and union territories from 1.4.04 to 31.12.04 as detailed below:

Description of Items	01.04.2003 To 31.03.2004	01.04.2004 To 31.12.2004
Medals	8122 Nos.	26,184 Nos
Tokens	---	------
Seals, Punches & Dial Plates.	60 Nos.	249 Nos
Weights & Measures (in Sets)	3,594 Sets	3,533 Sets
Weights & Measures (in Nos.)	143 Nos.	74 Nos.

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

S.No. Particulars	01.04.2003 To 31.3.2004 (Weight in Gms.)	01.04.2004 To 31.12.2004 (Weight in Gms.)
1. Refining of Gold	---	1,202,177.100
2. Melting of Gold Inclusive of GDS-2000	2,033,755.870	737,707.800
3. GDS/Merchants Alligation of Gold	1,205,018.882	204,968.500
4. a) Casting of Gold GDS	1,111,066.800	651,330.800
b) Govt.of Rajasthan -2 Gms. Medals	650,479.700	-----

7. FUND BANK DIVISION

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:

The total value of assistance extended by IBRD by way of loans to India has been US $ 25045.232 million as on 31.12.2003. During the period 01.01.2004 to 31.12.2004, new assistance for US $ 1453.53 million was signed making it US $ 26498.762 million in all as on 31.12.04. The sectors for which IBRD assistance has been provided are Irrigation, Forestry, Earthquake, Reconstruction programme, Transport, Power, Education projects and Structural Adjustment Loans and so on.

International Development Association:

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 31.12.2003. During the period 1.1.2004 to 31.12.2004, new assistance for US $ 1441.38 million was signed making it US $ 29666.21 million in all as on 31.12.2004. This includes assistance in the form of non-project credits for industrial imports and credits for various sectors. The major sectors for which assistance is provided are Agriculture, Irrigation, Health, Railways, Urban Development and Water Supply, Transport, Fertiliser, Industry, Education, Power and ARDC projects.

Proposals approved/signed/negotiated by World Bank from 1.01.2004 to 31.12.2004 are:

(in US $ million)

PROJECT NAME	APPROVAL/ SIGNING/ NEGOTIATION DATE	IBRD COMM AMT	IDA COMM AMT	TOTAL AMT
Rajasthan Health System Development Project	Signed on 3rd June, 04	0.00	89.00	89.00
Sarva Siksha Abhiyan Programme	Signed on 3rd June, 04	0.00	500.00	500.00
Integrated Disease Control Programme	Signed on 28th Oct., 04	0.00	68.00	68.00
Tamil Nadu Health System Development Programme	Approved on 16th Dec,04	0.00	110.83	110.83
M.P. Water sector Restructuring Project	Signed on 30th Nov., 04	394.02	0.00	394.02
Hydrology Project-II	Negotiated during 28-30 June, 04	105.51	0.00	105.51
Karnataka Urban Water Supply	Approved on 8th April, 04	39.50	0.00	39.50
Lucknow- Muzaffarpur National Highway Project	Approved on 21st Dec., 04	620.00	0.00	620.00
Orissa Structural Adjustment Loan-I	Signed on 10th Nov., 04	85.00	40.00	125.00
Andhra Pradesh Structural Adjustment Loan-II	Signed on 13th Feb., 04	110.00	110.00	220.00
Rural Roads Project (PMGSY)	Signed on 8th Nov., 04	99.50	300.00	399.50
Assam Agricultural Competitiveness Project	Approved on 14th Dec., 04	0.00	153.93	153.93
Uttaranchal Decentralised Watershed Development Project	Signed on 30th July, 04	0.00	69.62	69.62
TOTAL		**1453.53**	**1441.38**	**2894.91**

International Finance Corporation (IFC)

Total investment of IFC up to 31.12.2004 was $ 13.538 billion in 210 companies. The investments are mostly in the areas of steel, power, textiles, infrastructure and engineering companies.

International Monetary Fund (IMF)

As part of its mandate for international surveillance under the Article 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. During this exercise the IMF mission holds discussions with RBI and various ministries/departments of Central Government. The article IV consultations are concluded with a meeting of IMF Executive Board at Washington D.C. which discusses the Report. The first phase of 2004 Article IV consultations was held in November 2003. After that another visit was made by the IMF Mission to India in March, 2004 for making some interim assessment about the macro-economic and monetary development situation for the purpose of World Economic Outlook Report. Second phase of 2004 Article IV consultations concluded in October, 2004.

INDIA'S PARTICIPATION IN IMF INITIATIVE

Special Data Dissemination Standards (SDDS)

The SDDS indicates norms relating to coverage timeliness and periodicity of data, access to public and integrity and quality of data. The Statistics Department of the IMF linked India's National Summary Data Page to the Dissemination Standard Bulletin Board (DSBB) on July 7, 2003, facilitating international investors and analysts getting information on India.

HIPC initiative

India has supported the HIPC initiative and in April 2002 announced its intention to provide relief to the official debts of the HIPC countries. Government of India has signed an agreement with Government of Guyana in this respect.

Regional Training Centre: Government of India's approval was conveyed to the IMF's proposal for setting up a joint training program at the National Institute of Bank Management (NIBM), Pune.

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (IFAD)

India is one of the original members of the International Fund for Agricultural Development (IFAD). The Govt. of India have committed to contribute USD 15 million towards the 6th Replenishment of IFAD Resources. Government of India has made the payment of USD 5 million as 1st Instalment to the 6th Replenishment of IFAD till December, 2004. Since inception, India has contributed USD 52.00 million towards the resources of IFAD till December, 2004.

IFAD has assisted in 18 projects in the Agriculture and Rural Development Sector with the commitment of USD 457.97 million. Out of these, 10 projects have already closed.

7.2 ASIAN DEVELOPMENT BANK (ADB)

Asian Development Bank (ADB), an international Partnership of 63 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, 2004 is 6.424 % of all the member countries.

India started borrowing from ADB's Ordinary Capital Resources(OCR) in 1986. During calendar year 2004, ADB Board approved loans of US $1200 million for 5 loans to India, namely:

	Name of the Project	Amount US $ million
1.	Power Transmission (Sector) Project	400.00
2.	National Highways Corridor Sector II Project	400.00
3.	Assam Governance & Public Resource Management Sector Development Program	125.00
4.	Assam Governance & Public Resource Management Sector Development Project	25.00
5.	Multisector Project for Infrastructure Rehabilitation in Jammu and Kashmir	250.00
	Total	**1200.00**

The Bank's lending has been mainly in the Energy, Transport and Communications, Finance, Industry and Social Infrastructure sectors. As of December 31, 2004, the Bank had cumulatively approved 83 Public Sector loans to India amounting to US$ 14.111 billion. With 52 loans closed, the active portfolio comprises 31 loans. Cumulative disbursements till 31.12.2004 were about US$ 7.304 billion. A statement indicating the on-going projects financed/ being financed by Asian Development Bank is annexed.

India has contributed US $ 2.91 million in convertible currency (upto the end of 2004) 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 2004, India has received a cumulative amount of US $ 108.96 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 58 Indian Professional Staff working in the Bank out of the total of 856 professional staff. Out of these, 14 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 and Tajikistan. The Finance Minister is India's Governor on the Board of Governors of Asian Development Bank and Secretary (EA) is the Alternate Governor.

ADB assistance to North-Eastern States

During the year 2004, ADB has approved following Loan/ Technical Assistance for North Eastern States

	(in US$ million)
Loans	
1. Assam Governance & Public Resource Management Sector Development Program	125.00
2. Assam Governance & Public Resource Management Sector Development Project	25.00
Technical Assistance	
1. Policy and Legal Support for Power Sector Reforms	1.000
2. Institutional Development for Rural Electrification in Assam	0.400
3. Reorganisation of Assam State Electricity Board	1.000
4. Rural Road Sector II	1.000
5. North Eastern State Road	0.800
6. North Eastern Region Urban Dev. Project	1.000
7. Capacity Building for Fiscal Reforms in Sikkim	0.600

Total loans to India (as on 31.12.2004) under their Public Sector Operation to India.

Sl. No.	Loan No.	Project	Original Amount (US $ m)	Date of Approval
		Closed Loans	7342.60	
		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	Karnataka Urban Development and Coastal Environmental Project	175.00	26.10.1999
4	1720	Urban Environmental Infrastructure Facility(ICICI)	80.00	17.12.1999
5	1747	Surat Manor Tollway Project	180.00	27.7.2000
6	1764	Power Transmission Sector Project	250.00	6.10.2000
7	1761	Housing Finance II-ICICI	80.00	21.9.2000
8	1804	Gujarat Power Sector Project	200.00	13.12.2000
9	1813	Kolkata Environment Project	250.00	19.12.2000
10	1826	Gujarat Earthquake Rehabilitation and Reconstruction	500.00	26.3.2001
11	1839	Western Transport Corridor	240.00	20.9.2001
12	1869	Madhya Pradesh Power Sector Devl. Project	200.00	6.12.2001
13	1870	West Bengal Corridor Development	210.00	11.12.2001
14	1871	Private Sector Infrastructure Facility at State Level (Infrastructure Leasing & financial Services Ltd.)	100.00	11.12.2001
15	1968	State Power Sector Reforms Project (PFC)	150.00	12.12.2002
16	1944	East-West Corridor Project	320.00	26.11.2002
17	1958	MP Road Sector Development Program	30.00	5.12.2002
18	1959	MP Road Sector Development Project	150.00	5.12.2002
19	1974	Modernizing Government & Fiscal Reforms in Kerala	200.00	16.12.2002
20	1981	Railway Sector Improvement Project	313.60	19.11.2002
21	2018	Rural Roads Sctor I Project	400.00	20.11.2003
22	2029	National Highway Corridor Sector I Project	400.00	4.12.2003
23	2026	Assam Power Sector Development Program	150.00	10.12.2003
24	2027	Assam Power Sector Development Project	100.00	10.12.2003
25	2046	Urban Water Supply & Environmental Imp. In MP	200.00	12.12.2003
26	2050	Chhattisgarh State Road Development Project	180.00	15.12.2003
27	2152	Power Transmission Sector Project	400.00	21.12.2004
28	2141	Assam Goverenance & Public Resource Management Sector Development Program	125.00	16.12.2004
29	2142	Assam Goverenance & Public Resource Management Sector Development Project	25.00	16.12.2004
30	2151	Multisector Project for Infrastructure Rehabilitation in J&K	250.00	21.12.2004
31	2154	National Highway Corridor Sector II Project	400.00	21.12.2004
		Total	**6548.60**	

7.3 FIPB Unit

The Foreign Investment Promotion Board (FIPB) has been reconstituted vide OM No. 1/3/2003-FIU dated 18.2.2003 and transferred to the Department of Economic Affairs (DEA), Ministry of Finance with the following administrative arrangements.

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, 2004, total 17 meetings were held in which 733 proposals were considered and 578 proposals were approved, compared to the period April-December 2003, in which 26 meetings were held, 875 proposals were considered and 614 proposals were approved. The FDI inflow involved was approximately Rs. 6663 crore in 2004 as against Rs. 4904 crore in 2003.

7. The Government has further liberalized the FDI procedure. As per Press Note dated 29.9.2004 issued by DEA, transfer of shares from resident to non-resident, conversion of ECB into equity and increase in foreign equity participation by way of fresh issue of shares and conversion of preference shares into equity is also put under automatic route instead of Government route, provided such proposal is not in financial service sector, the investment is covered under automatic route, the SEBI(SAST) Regulations, 1997 is not attracted and the proposal is within the notified sectoral caps and does not attract Press Note No. 18 (1998 series). As per Press Note dated 4.10.2004 issued by DEA, the requirement of extension to the validity to the FC approval has also been dispensed with.

8. In addition, the Government has reviewed the guidelines notified Vide Press Note 18(1998 series) which stipulated approval of the Government for new proposals for foreign investment/ technical collaboration where the foreign investor has or had any joint venture or technology transfer/trademark agreement in the same or allied field in India; and issued a Press Note 1 (2005 series) vide No. 8/1/2003-FC(Pt.) dated 12th January, 2005 dispensing with the above requirement of Press Note 18 of 1998.

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.

7.4 FIU

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.

All items/activities for FDI/NRI investment up to 100% fall under the Automatic Route except the following categories where Government approval for FDI/NRI through the FIPB shall be necessary:-

(i) All proposals that require an Industrial Licence which include (1) the item requiring an Industrial Licence under the Industries (Development & Regulation) Act, 1951; (2) foreign investment being more than 24 per cent in the equity capital of units manufacturing items reserved for small scale industries; and (3) all items which require an Industrial License in terms of the locational policy notified by Government under the New Industrial Policy of 1991.

(ii) All proposals in which the foreign collaborator has a previous venture/tie up in India. The modalities prescribed in Press Note No.1 dated 12.1.2005 of 2005 Series, shall apply to such cases. However, this shall not apply to investment made by multilateral financial institutions such as Asian Development Bank (ADB), International Finance Corporation (Washington) IFC(W), Commonwealth Development Corporation (CDC), German Investment and Developing Company (DEG), etc. as also investment made in IT sector.

(iii) All proposals involving acquisition of existing shares in an Indian company by a foreign/NRI investor (a) in sectors which are not on automatic approval route, (b) financial services sector (c) cases which attract provisions of SEBI's (Substantial Acquisitions of shares and Takeover) Regulation, 1997.

All proposals falling outside notified sectoral policy/caps or under sectors in which FDI is not permitted on the automatic route.

SETTING UP OF AN INVESTMENT COMMISSION.

Finance Minister had announced in the Budget Speech 2004-05 for setting up of an Investment Commission to make the environment in India attractive for investors. Accordingly, Investment Commission has since been set up in December 2004 with the following composition:

(i)	Shri Ratan Tata	Chairman
(ii)	Dr. Ashok Ganguly	Member
(iii)	Shri Deepak Parekh	Member

The Commission will have the broad authority of the Government to engage, discuss with and invite domestic and foreign businesses to invest in India. Terms of Reference of Investment Commission include:

(a) The Investment Commission will be constituted initially for a period of 3 years;

(b) The Investment Commission will be located within the Government (in the Ministry of Finance as decided by the Prime Minister), and will enjoy operational autonomy and Government support;

(c) The Commission will seek meetings and visit with industrial groups/houses in India and with large companies abroad, particularly in sectors where there is a dire need for investment but adequate investment has not flowed so far. The Commission will interact closely with the Boards of Directors of potential investing companies.

(d) In respect of Indian investors, the Commission would also address the issue of bridging the gap between "announcements" and "proposals" and also the gap between "proposals" and "project implementation".

(e) The Commission will endeavour to secure a certain level of investment every year and its progress will be reviewed at the end of every quarter.

(f) The Commission will make recommendations to Government both on policy and procedures to facilitate greater FDI flows into India.

The recommendations of the Investment Commission will be processed in the Ministry of Finance and will put up to the Competent Authority for approval. All policy decisions emerging from the recommendations of the Investment Commission would be put up to CCEA for approval.

FDI IN BUDGET 2004-05

In the Budget speech for 2004-05, Finance Minister has stated that FDI will continue to be encouraged and actively sought, particularly in areas of infrastructure, high technology and exports. Accordingly it was announced to raise the sectoral cap for FDI in telecommunication from 49 percent to 74 percent; in civil aviation from 40 percent to 49 percent; and in insurance from 26 percent to 49 percent.

The present status FDI cap in Civil Aviation, Telecommunication and Insurance Sector, is indicated below.

Telecommunication sector

Government has since enhanced foreign investment limit in Telcom Sector to 74%.

Civil Aviation Sector

Increase in FDI cap from 40% to 49% in Civil Aviation has been Notified by Ministry of Civial Aviation on 10th November, 2004. As per Notification FDI in "Air Transport Services (Domestic Airlines)" has been revised as under:-

49% through automatic route

100% by Non-Resident Indians (NRIs) through automatic route (No direct or indirect equity participation by foreign airlines is allowed.)

Insurance Sector.

A draft Cabinet note for amendment of Insurance Act, 1938 to raise the foreign equity in the Insurance Companies has been submitted by Insurance Division for approval.

Simplification of Procedure

With a view to make the environment in India more attractive for foreign investors, it has been decided to simplify the procedure vide Press Note dated 29th September, 2004 by placing the following under the General Permission route (i.e. RBI route) instead of existing Government approval route(i.e. FIPB route) for speedy investment approvals:

(a) Transfer of shares from resident to non-resident (including transfer of subscribers' shares to non-residents) other than in financial services sector provided the investment is covered under automatic route, does not attract the provisions of SEBI's (Substantial Acquisition of Shares and Takeovers) Regulations, 1997, falls within the sectoral cap and also complies with prescribed pricing guidelines

(b) Conversion of ECB/Loan into equity provided the activity of the company is covered under automatic route, the foreign equity after such conversion falls within the sectoral cap and also complies with prescribed pricing guidelines.

(c) Cases of increase in foreign equity participation by fresh issue of shares as well as conversion of preference shares into equity capital provided such increase falls within the sectoral cap in the relevant sectors, are within the automatic route and also complies with prescribed pricing guidelines.

The issue of extension of validity of Foreign Collaboration (FC) approval in Government was reviewed and it has been decided that:

(a) Stipulation of specific validity dates for FC approvals for class of cases in sectors which are on automatic route, may be dispensed with. Being now on the automatic route, the investor may bring in capital when they like, regardless of earlier (initial) FIPB stipulations to bring in investment within a certain date; and

(b) Class of cases which are not yet on the automatic route, for existing approvals extension of validity should not be insisted. In respect of fresh FIPB approvals, stipulation of specific validity dates for FC approvals is being dispensed with.

III. FDI INFLOWS

During the first quarter of 2004-05 (April-June), net capital flows at US $ 5.6 billion were driven mainly by ECBs, short-term trade credits on account of substantially higher crude oil import requirements and Foreign Direct Investment (FDI). FII inflows have revived in subsequent months.

Foreign investment inflows in the current financial year are mainly attributable to investors' confidence in the Indian economy. International liquidity conditions and portfolio diversification by investors also contributed to foreign investment inflows during the year.

Capital Flows *(US $ billion)*

Component	April - March 2002-03	April - March 2003-04	April-June 2003-04	April-June 2004-05
1	2	3	4	5
Foreign Direct Investment	3.2	3.4	0.7	1.2
Portfolio Investment	0.9	11.4	1.4	0.1
External Assistance	- 3.1	- 2.7	-0.3	0.1
External Commercial Borrowings	- 1.7	-1.5	0.4	1.2
NRI Deposits	3.0	3.6	1.8	-0.8
Other Banking Capital	7.4	2.6	0.1	1.9
Short-term Credits	1.0	1.4	0.9	1.6
Other Capital	0.1	2.3	1.0	0.3
Total	10.8	20.5	6.0	5.6

Foreign Investment Flows by Category *(US $ million)*

	Item	2002-03 R	2003-04 P	April-September 2003	April-September 2004 P
	1	2	3	4	5
A.	Direct Investment (I+II+III)	5,035	4,673	1,600	2,596
I.	Equity (a+b+c+d+e)	2,764	2,387	1,034	2,046
	a. Government (SIA/FIPB)	919	928	470	704
	b. RBI	739	534	263	659
	c. NRI	-	-	-	-
	d. Acquisition of shares *	916	735	253	635
	e. Equity capital of unincorporated bodies	190	190	48	48
II.	Re-invested earnings$	1,833	1798	450	454
III.	Other capital $$	438	488	116	96
B.	Portfolio Investment a+b+c)	979	11,377	3,534	512
	a. GDRs/ADRs #	600	459	347	170
	b. FIIs **	377	10,918	3,187	339
	c. Offshore funds and others	2	-	-	3
C.	Total (A+B)	6,014	16,050	5,134	3,108

* *Relates to acquisition of shares of Indian companies by non-residents under Section 5 of FEMA, 1999. Data on such acquisitions have been included as part of FDI since January 1996.*

$ *Data for 2003-04 are estimated as average of previous two years.*

$$ *Data pertain to inter-company debt transactions of FDI entities.*

\# *Represents the amount raised by Indian corporates through GDRs and ADRs.*

** *Represents fresh inflow of funds by FIIs.*

R : *Revised.* **P :** *Provisional.*

After remaining subdued during 2002-03 and 2003-04, FDI is showing clear signs of a pick-up backed by policy support and optimism about the investment opportunities being offered by several sectors. Ongoing liberalisation of the FDI policy, including the budget proposals of raising the sectoral caps on FDI in telecom, civil aviation and insurance sector as well as strong macroeconomic performance of the Indian economy are the main factors behind the higher FDI inflows during the current year. Of the three sectors, the hike in FDI cap to 49 per cent in private airlines has already been approved. Issues like procedural and policy bottlenecks are being addressed on a priority basis. An Investment Commission has been set up to act as an interface between the Government and investors to attract investment in infrastructure. A recent survey by global management consultancy firm AT Kearney reveals that India is now the third most preferred FDI destination in the world behind only China and the US and ahead of other emerging markets like Brazil, Mexico and Poland. According to the survey, the global investors view India as the world's business process and IT services provider, with longer-term market potential. Reflecting the same, services industry emerged as the largest recipient of FDI flows during April-September 2004, followed by engineering and computers. Source-wise, Mauritius continued to be the single largest source of FDI into India during April-September 2004, followed by the US and the Netherlands.

7.5 NRI UNIT

I. MAJOR FUNCTIONS OF NRI UNIT WHICH IS A PART OF THE INVESTMENT DIVISION ARE AS UNDER:

(i) Euro-equity/Foreign Currency Convertible bonds policy

(ii) Foreign Institutional Investors Portfolio Investment Policy

(iii) Investment Policy for Non-Resident Indian.

(iv) Policy governing opening up of branch/liaison/ project office by foreign companies and coordination in respect of individual proposals referred to Government by RBI.

(v) Matters related to Indian Investment Centre, an autonomous body under the Ministry of Finance.

II. ACHIEVEMENTS DURING THE YEAR

ADR/GDR/FCCB

Since liberalisation of the capital account transactions, Foreign Currency Convertible Bonds (FCCBs) upto the value of US $ 500 million had been put under the automatic route and beyond US $ 500 million under the Reserve Bank of India route during 2003-04.

FCCB and ADR/GDR investment for the financial year 2003-04 were as given below :

Amount (in US$ Million)

1.	FCCB	208.94
2.	ADR/GDR	492.447

FCCB and ADR/GDR investment during the financial year 2004-05(till 20.1.2005) are as given below :

Amount (in US$ Million)

1.	FCCB	1918.00
2.	ADR/GDR	435.75

Portfolio Investment:

Total net FII investment for the year 2003-04 were US $ 9981.7 million.

Total net FII investment during the year 2004-05 (till 20.1.2005) stand at US $ 6204 million.

Approach of the Government is that FIIs will continue to be encouraged while the vulnerability of the financial system to the flow of speculative capital will be reduced.

8. Foreign Trade Division

Foreign Trade Division comprises the following 5 branches:

1. UN
2. Infrastructure
3. FT&WTO
4. POL
5. Vigilance

The important initiatives and decisions taken in 2004-05, Branchwise, are as follows:

8.1 UN Branch

8.1.1 India Development Initiative Section

In order to promote India both as a production centre and as an investment destination, a fund called 'India Development Initiative' has been established.

The fund would, inter-alia, be utilised for giving interest subsidy to Exim Bank for providing lines of credit to foreign countries, which is likely to promote India's image overseas as a manufacturer of quality goods. The following proposals for GOI lines of credit to be routed through the Exim Bank of India, have been approved during 2004-05:

(i) US$ 16 million credit line to Suriname
(ii) US$ 20 million credit line to Kenya
(iii) US$ 15 million credit line to Senegal
(iv) US$ 40 million credit line to Angola
(v) US$ 10 million credit line to Azerbaizan
(vi) US$ 52 million credit line to Myanmar
(vii) US$ 150 million credit line to Sri Lanka
(viii) US$ 19 million credit line to Guyana
(ix) US$ 18 million credit line to Senegal
(x) US$ 10 million credit line to Mauritius

8.1.2 UN Section

8.1.2.1 Under the New Country Cooperation Framework (CCF-II) of UNDP, 5 developmental programmes for US$10.70 million have been approved in the year 2004-05.

8.1.2.2 U.N.D.P Projects in North Eastern Region

There are at present 10 ongoing projects with UNDP assistance for various developmental activities in North-Eastern Region.

8.1.3 Regional Cooperation Section

8.1.3.1 Technical Cooperation Scheme under Colombo Plan

Out of 400 slots earmarked for training of officers from Colombo Plan member countries for the year 2004-05, 300 slots were utilised till 31.12.2004. The areas of training covered human resource development, audit and accounts, commerce, information technology, computers education, parliamentary matters, rural development, textile, water resources, medical sciences, engineering, financial management, insurance etc.

8.1.3.2 Matters relating to bilateral relations with Russia

The first meeting of Indo-Russian Joint Task Force was held on 30th November, 2004 in New Delhi to discuss the issues on settlement of Inter-Governmental financial obligations.

The Indian side agreed to the Russian proposal to permit investment of accumulated rupee funds toward investment in India as per a Letter of Exchange, which is in formulation.

The Indian side also agreed to the Russian proposal to permit investment of accumulated rupee funds toward investment of an additional US$24.75 million as equity in the BrahMos project.

The following issues were also discussed in the meeting:

(i) Short payments in the repayment of 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) Settlement of the payment claims of Indian exporters for deliveries of goods and services to the former USSR and the Russian Federation.

8.2 Infrastructure Branch

A major infrastructure development initiative with public private partnership in various infrastructure sectors such as roads, seaports, airports, railways convention centres, etc with viability gap support from the Government of India has been envisaged. In the budget 2004-05, 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 of the projects to be taken up under public private partnership. The guidelines on support to public private partnerships have since been issued and information disseminated widely. A scheme to operationalise this facility will be in place in the current financial year.

8.3 The FT & WTO Branch

8.3.1 DEA participated in negotiations pertaining to Financial Services in Comprehensive Economic Cooperation Agreements/ Free Trade Areas with Singapore, SAARC member countries, Sri-Lanka, China, Mauritius and Arab States of the Gulf (GCC).

8.3.2 IC Section

8.3.2.1 During the year, the policy on Indian Direct Investment Abroad was further liberalized to enable Indian corporates to make investments in Nepal and Bhutan in freely convertible currencies, in addition to Indian rupees. The inward remittances of interest/ dividends/profits from the investment in Nepal and Bhutan have been allowed in freely convertible currencies, in addition to Indian rupees.

8.3.2.2 During the year 2004-05 (Apr to Sept 04), 557 approvals were issued for overseas investments worth US$ 567 million.

8.3.2.3 During the year Bilateral Investment Promotion & Protection Agreements were signed/ratified with Cyprus, Bahrain, Indonesia and Yemen and negotiations were conducted with Saudi Arabia, Uruguay, Canada, Latvia, 4 countries apart from SAARC countries for finalising and concluding the agreements. So far agreements have been signed with 57 countries of which 47 have been ratified and others are in various stages of ratification.

8.4 POL Branch

8.4.1 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 Bangladesh, Ivory Coast, Ecuador, Iran, Iraq, Myanmar, Vietnam, etc.
- Regulatory Board to oversee petroleum and natural gas sectors has been proposed to set up.

8.4.2 Subsidies to North-East: Subsidies to refineries in the North East has been continued on a rationalized basis. Freight Subsidies will continue to be provided for LPG and kerosene to far-flung areas, including the North Eastern region.

8.5 Vigilance Branch

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

9. AID ACCOUNTS & AUDIT DIVISION

9.1 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.

9.2. Aid flows

9.2.1 The external receipts on Government accounts during 2003-2004 in the form of loans/credits were Rs. 13589.68 crores against the Revised Estimates of Rs. 13589.61 crores. Cash Grant Assistance received during 2003-2004 was Rs. 1978.88 crores against RE of Rs. 2674.26 crores.

9.2.2 The drawal of external loan/credits during 2004-05 (upto January 31, 2005) is Rs. 9197.45 crores against RE of Rs. 16192.86 crores and cash grant assistance received upto January 31, 2005 is Rs. 1545.82 crores against RE of Rs. 2896.70 crores.

9.3 E-Governance

9.3.1 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, preparations of annual external assistance brochure and in maintaining update CS-DRMS. The ICS has been refined/fine-turned 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.

9.3.2 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, a separate report is provided a detailed report of ACA release made by PF-I Division w.e.f. 01-04-2002. 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.

9.3.3 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.

9.3.4 Action is on hand to implement a Dynamic web-site, which would enable any user to generate customised report as per their specific requirements. 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.

9.4. ISO Certification

9.4.1 Work of ISO 9001:2000 certification for the Division is also in hand.

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 31-3-2005 (tentative) is given below:

A. Representation of Scheduled Castes/Scheduled Tribes as on 31-3-2005 (Tentative)

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 Grade "A"	205	204	1	20	13
ii) Lowest rung of Gr "A"	140	136	4	20	7
Group "B"	821	817	4	135	38
Group "C"	2730	2696	34	450	184
Group "D" (excluding sweeper)	706	693	13	175	68
Group "D" (sweepers)	231	227	4	168	11
Unclassified/industrial Workmen	15328	15228	100	3095	1502

B. Representation of Ex-servicemen in Group "C" & "D" posts as on 31-3-05 (Tentative)

Group	Total No of employees	Ex-servicemen
1	2	3
Group "C"	2730	313
Group "D" (excluding Sweeper)	706	81
Group "D" (Sweeper)	231	2
Unclassified/Industrial Workmen	15328	281

C. Position of persons with disability as on 31-3-2005 (Tentative)

Group	Total No of employees	No of persons with disability		
		VH	HH	OH
1.	2.	3.	4.	5.
Group A	345	0	0	4
Group "B"	821	0	1	7
Group "C"	2730	1	1	31
Group "D"	937	5	2	14
Unclassified/Industrial Workmen	15328	47	83	262

VH : *Visually Handicapped*

HH : *Hearing Handicapped*

OH : *Orthopaedically Handicapped*

III. Grants-in-aid:

During the year 2004-2005 (upto 15-3-2005) the following amounts were sanctioned as grants-in-aid:

S. No.	Name of the grantee institution	Amount released	Purpose
1	Ratan Tata Library, Delhi School of Economics	Rs. 75.00 lakhs	Corpus Fund
2	St. Thomas College, Thrissur (Kerala)	Rs.2.00 lakhs	For organizing a seminar in honour of Prof. K.N. Raj, eminent economist
3	Centre for Development Economics, Delhi School of Economics	Rs.1.00 lakh	For holding winter school programme
4.	Institute for Human Development, New Delhi	Rs.2.00 lakhs	For holding a seminar on "Wages and Incomes in India: Emerging Patterns and Policy Issues" at Mumbai
5.	Indian Economic Association	Rs.2.00 lakhs	For holding 87th annual conference at Varanasi
6.	The Indian Econometric Society	Rs.2.00 lakhs	For holding 41st annual conference at Kolkata.
7	Indian Council for Research on International Economic Relations (ICRIER)	Rs.10.00 lakhs	Block grant for the year 2004-05
8	National Council of Applied Economic Research (NCAER)	Rs. 50.00 lakhs	Annual recurring grant

IV. Complaints Committee on Sexual Harassment of Women Employees

A Complaints Committee in the Department of Economic Affairs (Main) for considering complaints of women employees has been set up. Smt Anuradha Prasad, Director (Budget) is the Chairperson of the Committee. The composition of the Committee is as follows:

i)	Smt Anuradha Prasad Director (Budget) Department of Economic Affairs	Chairperson
ii)	Ms Aparajitha Choudhary Deputy Secretary Department of Economic Affairs	Member
iii)	Shri Ram Mohan Under Secretary (Vigilance) Department of Economic Affairs	Member Secretary

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.

2. 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:-

i) Annual programme for the year 2004-2005 circulated by the Department of Official Language was brought to the specific notice of all the attached/subordinate offices and all the divisions/sections of the Department. The progress made in achieving the targets under the annual programme was reviewed at the meetings of the Official Language Implementation Committee.

ii) Officers and employees were nominated to undergo training under Hindi Training Programme in Hindi / Hindi typing / Hindi stenography.

iii) As an incentive to do more official work in Hindi, annual competitions were held during September, 2004 and qualifying officials were given cash awards.

iv) The committee of Parliament on Official Language inspected various attached/subordinate offices of the Department throughout the country to see upto what extent the Official Language Policy of the Union is being implemented . Proper instructions in this regard were issued and proper cooperation , coordination and representation in the inspection programme on behalf of Department were ensured.

v) The tenure of Hindi Salahkar Samiti of the Department expired on 19th July, 2004. It is under the process of reconstitution.

vi) A scheme to encourage writing of original books in Hindi on economic subjects is being implemented by the Department.

vii) The Hon'ble Finance Minister in his 'Message' on Hindi Day on 14th September 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.

viii) Hindi workshops were organized with the objective of encouraging the officers and employees in using Hindi in their official work.

ix) All efforts were made to motivate staff members, create consciousness amongst them for accelerating the use of Hindi for official purposes.

x) Sections and attached/subordinate offices of the Department were inspected by a team 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.

xi) Official language Implementation Committee of the Department continued to look after the implementation of Official Language Policy in the headquaters and its attached/subordinate offices and it held meetings to review the progress of implementation of Official Language.

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.

Finance Library has been categorized as Grade III library on the basis of Department of Expenditure's O.M. No. 19(1)/IC/85 dated 24.07.1990. All the posts in the library are ex cadre posts.

Library has specialized collection of more than two lakhs documents on economic and financial matters and subscribe to more than 800 periodicals/newspapers annually.

Library provides different kinds of services viz. lending, inter-library loan, consultation, reprographic, circulation of newspapers and magazines, reference service, current awareness service through "Weekly Bulletin". The Finance Library also undertakes the work of distribution of publications of Ministry of Finance and Reserve Bank of India to State Governments, Foreign Governments and renowned institutions in India as well as abroad.

The Finance Library also undertakes the work of scanning the public grievances appearing in the leading newspapers relating to the Department of Economic Affairs.

COMPUTERISATION

Finance library is already computerized and arrangements are being made to provide on line service. Documentation of around 40,000 records is in progress. The NIC is "converting Library Data from Techlib-Plus to E-Granthalaya".

11. BILATERAL COOPERATION DIVISION
EUROPEAN COMMISSION (EC)

The EC has been extending economic assistance to India since 1976. The EC assistance to India is entirely in the form of grants and is used to finance the rupee as well as foreign exchange cost of identified projects.

2. Priority sectors for EC are education, health and environment. There are two ongoing central projects in education sector (Sarva Shiksha Abhiyan) and health sector (Health & Family Welfare Sector Development Programme) with EC assistance of Euro 200 million and Euro 240 million respectively.

3. EC has shifted its bilateral development cooperation focus from project-based and sector based approach to partnership approach with two Indian States. Accordingly, the States of Chhattisgarh and Rajasthan have been mutually identified for European Commission's "State Partnership Programme", which would cover the sectors of education, health, environment, etc. A Memorandum of Understanding was signed with EC on 25th February 2004 as per which a total amount of Euro 160 million will be provided by the European Commission for the projects to be identified in the States of Chhattisgarh and Rajasthan. The sectors to be covered in the State of Chhattisgarh are education, health and environment/natural resources, while the water resources sector, along with health and education, is indicated as strong priority for Rajasthan

4. Disbursement of EC assistance for ongoing development cooperation projects during 2003-2004 was Euro 24.011 million (Rs.135 crore approx.). During 2004-2005 (upto 30.11.2004) the disbursement has been Euro 50.057 million. (Rs.280 cr. approx.).

THE NETHERLANDS

Netherlands had 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. The Dutch assistance disbursed through Government of India during 2003-2004 and 2004-2005 (till November) has been Rs.199.12 cr. and Rs.41.560 cr. respectively.

BELGIUM

Belgium had been providing bilateral development assistance to India since 1962-63. However, over the years the quantum of Belgian assistance had become rather meager.

2. The prepayment of all the outstanding Belgian Loans (amounting to Euro 26,207,208.98) has been made in the last week of December, 2004.

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. The U.K. assistance is administered by the Department for International Development (DFID). The assistance provided by the UK is in the form of Financial Contribution (FC) and Technical Cooperation (TC). DFID's assistance are in various sectors such as education, slum improvement, health and family welfare, power, forestry etc. within the overarching framework of poverty alleviation. DFID is also contributing to National Programmes such as Sarva Shiksha Abhiyan and National Aids Control Programme, and will also be involved in Reproductive Child Health Project, Phase-II (RCH-II). The priority states of DFID are Andhra Pradesh, Madhya Pradesh, Orissa and West Bengal. In March'04, DFID launched its new Country Plan in India for 2004 - 2008, entitled "India Country Plan - Partnership for Development". The programme will be focused around three objectives (i) more integrated approaches to tackling poverty in focus states, (ii) improving the enabling environment for sustainable and equitable economic growth, and (iii) improving the access of poor people to better quality services.

2. Performance/achievements upto last year

During 2003-04, UK had committed £ 218.30 million (Rs.1637.25 crores) through signing of new agreements. UK disbursed a total amount of £ 158.141 (Rs.1279.944 crores) for the ongoing projects.

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

During 2004-05, UK disbursed a total amount of £ 67.549 million (Rs.560.173 crore) upto 30.11.2004 for the ongoing projects, while commitment for the current FY (Dec.04) has been £ 308.22 million (Rs.2465.76 crore) through signing of new agreements in respect of (i) National Aid Control Programme (NACO-II), (ii) Sarva Sikha Abhiyan and (iii) Orissa Public Enterprises Reforms Phase-II.

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. Government of India would, however, consider proposals for technical assistance from bilateral development partners for SA Programmes and PSER Programmes of State Governments. 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. Financial requirements for Structural Adjustment Programmes and Public Sector Enterprises reforms could be met from other non-grant sources. Government of India has been stressing the need to utilize DFID assistance for achievement of MDGs.

DENMARK

The Danish assistance is received in the form of grants provided for local cost projects in poverty alleviation and social sector development. Upto 31-3-2004, a total of DKK 5362.30 million (equivalent Rs 3217.38 crores) has been committed by Denmark, which includes loans and grants.

Total disbursement of Danish assistance routed through Government of India account during the last financial year (FY 2003-04) was DKK 67.683 million (Rs.49.341 crores). During the period, two agreements were signed: (i) Revised National TB Control, Phase II in Orissa on 12-12-2003 for a grant of DKK 21.10 million (Rs.13.48 crores). (ii) Comprehensive Watershed Development project Phase II in Madhya Pradesh signed on 30.4.2003 for a grant of DKK 20.88 million (Rs. 11.06 crores). In the current financial year 2004-05, Rs. 8.670 crores has been disbursed up to 31-10-2004 through Government of India by the Govt. of Denmark.

Government of India has prepaid DKK 528.236 million ($ 70.5 million (approximately) and USD 1.259 million on 20-10-2003 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 mutually 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 only 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.

French development assistance is tied to imports of French goods and services. In view of revised policy of bilateral development cooperation with bilateral partners vide Press Release dated 20.9.2004, India will accept assistance from all G-8 countries, namely, France, USA, UK, Japan, Germany, Italy, Canada and Russian Federation as well as European Commission. There is no change in the Government's policy of not accepting tied aid from any country.

In the financial year 2003-04, an amount of Euro 6.998 million (Rs.37.815 crore) was received from France. During the current financial year Euro 3.137 million (Rs.17.456 crores) has been disbursed by the Govt. of France upto 31-10-2004.

SWITZERLAND

1. Switzerland had been providing bilateral development cooperation assistance to India since 1960. During 2002-03, an agreement for Rs.4.32 crores (SFR 3.39 million) for an Indo-Swiss Project in Sikkim, was signed with Switzerland.

2. There has been no disbursement of Swiss assistance through Government of India during 2003-04. During the current financial year Switzerland has disbursed Rs.12.53 crores through Government of India up to 31.10.2004.

ITALY

1. The Italian bilateral development assistance to India, started in 1976, 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 Municipalities of West Bengal. The Financial Convention to be signed between Department of Economic Affairs and the designated Italian bank is being finalised.

2. There was no disbursement of Italian assistance through Government of India during 2002-03, 2003-04 and 2004-05.

FEDERAL REPUBLIC OF GERMANY

Germany is one of the largest bilateral development co-operation partners of India. Germany provides financial assistance as well as technical assistance to India. The sectoral priorities of the Indo-German development co-operation are environmental policy, protection and sustainable use of natural resources; energy, economic reforms (financial and private sector); health, family planning and HIV/AIDS.

2. For the year 2004, Germany has made fresh commitments of Euro 93.0 million as financial assistance (Euro 30.5 million as soft loan, Euro 19.0 million as grant and Euro 43.5 million as interest- subsidized loan) and Euro 15.0 million for technical assistance as grant.

3. The total disbursement (excluding technical assistance) during 2004-05 (upto January, 2005) was Euro 18.603 million. New loan and financing agreements for Euro 322.057 million have been signed during 2004-05 (upto January, 2005).

4. The Finance Minister of Germany accompanied by the State Secretary and other senior officers visited India on 14-15 October, 2004 at the invitation of Finance Minister. This visit was a part of the regular bilateral consultations between the Finance Ministers of India and Germany.

NORWAY

The Norwegian Bilateral Development Assistance Programme in India began in 1952 with the bilateral development assistance for a fishery development project in Kerala by way of technical assistance and financial support.

Since 1970, Norwegian assistance has been received as grants for financing the cost of technical services and local cost projects, mainly in social and environment sectors.

The Norwegian assistance disbursed during 2004-05 was of the order of NOK 1.83 million.

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 GOI's budget during the last three years as none of the ongoing Swedish aided projects have funds routed through budget.

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), formally know as Overseas Economic Cooperation Fund (OECF). Grant Aid and Technical Cooperation is received through JICA (Japan International Cooperation Agency). Last year (2003-04) India had become the largest recipient of Japanese Official Development Assistance. Japan has provided an amount of Yen 125,004 million (equivalent to Rs. 5250 crores approximately) for funding of 8 new projects,under FY 2003 ODA package.

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 environmental projects. The tenure of the loans is 30 years for general category and 40 years for environmental category. Priority Sectors for ODA loans are economic infrastructure, environmental protection, basic human needs like health, education, water and sanitation.

3. During 2004-2005 (upto 30.11.2004), disbursement of Japanese ODA to India was Japanese Yen 48.59 billion (about Rs. 2005 crores) for JBIC assisted projects. Government of Japan appraised the following eight projects for funding under FY 2004 Japanese ODA loan package:

(i) North Karanpura Super Thermal Power Project

(ii) Tamil Nadu Afforestation Project-II

(iii) Karnataka Sustainable Forest Management and Biodiversity Conservation Project

(iv) Ganga Action Plan Project (Varanasi)

(v) Uttar Pradesh Buddhist Circuit Development Project

(vi) Bangalore Water Supply and Sewerage Project (II)

(vii) Delhi Mass Rapid Transport System Project (VI)

(viii) Rajasthan Minor Irrigation Improvement Project.

4. Grant Aid

Government of Japan provides grant aid of Yen 3-4 billion approximately per annum. Notes for grant assistance of JY 2134 million were signed and exchanged on 25.6.2004 for the project for "Founding a Collaborative Diarrheal Disease Research and Control Centre in India".

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.

Minutes of meeting on Preparation of Scope of Work for the Development Study of the Project for Augmentation of Water Supply and Sanitation in Goa State was signed on September 22, 2004.

JICA Partnership Programme involving Indian and Japanese NGOs, was started in 2001 and two proposals have been cleared in this financial year till 15.3.2005.

6. Grassroots Funding

Government of Japan also provides small grant assistance to Indian NGOs under its scheme for "Grant Assistance for Grass root Projects". Seven proposals have been cleared by Department of Economic Affairs in this financial year till 15.3.2005.

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. The 6th Policy Dialogue on Japanese Green Aid Plan was held on 18.11.2004.

Australia

Australian Development Assistance to India started in the year 1951. This is channeled through the Australian Agency for International Development (AusAID).

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) to take up collaborative research projects. 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 15.3.2005.

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 the year 2004.

NORTH AMERICA (NA) SECTION

The subjects dealt with in the North America (NA) Section are:

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.

Matters relating to Indo-US Financial and Economic Forum.

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.

Extension of grants by Ford Foundation (FF), International Development Research Center of Canada (IDRC) to Indian Institutions /NGOs.

UNITED STATES OF AMERICA

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.

Assistance disbursed in 2003-2004 was of the order of US $ 50.19 million as compared to US$ 28.525 million disbursed in 2002-03.

Under PL-480 (Title II), USA has been donating agricultural commodities as outright grant. USAID has disbursed a total amount of US $ 55.319 million (including freight) in 2003-04 as compared to US $ 57.602 million disbursed during 2002-03.

Department of Economic Affairs is the nodal agency for the Indo-US Financial & Economic Forum, which is being pursued under the overall Indo-US Economic Dialogue, being coordinated by Prime Minister's Office. Under this, regular interaction with the US Government takes place.

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. 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.

In the Budget for 2003-04, GOI had announced its decision to stop taking further Official Development Assistance (ODA) from a number of bilateral development cooperation partners including Canada. As a result, in October 2003, CIDA notified to phase out their current bilateral aid program by 2007. The GOI had, in October 2003, prepaid the entire Canadian Loan of CAD 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. 56 project proposals involving total grants of $ 8.457 million have been cleared in 2004-05 (upto September 2004) as compared to 90 project proposals involving total grant of US $ 12.52 million in 2003-04.

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 2004-05 (upto December 2004) 9 proposals involving grant assistance of CAD 1.684 million have been cleared as compared to 22 project proposals for the total grant of Can $ 15.41 million cleared in 2003-04.

12. 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.

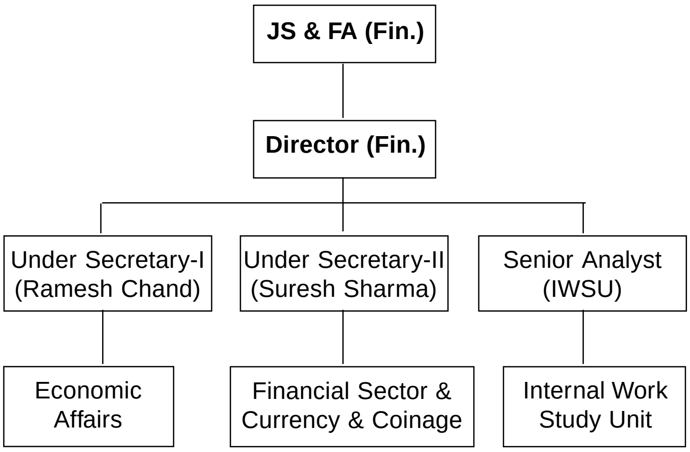
2. It undertakes regular review of disbursements in State and Central sectors and deals, inter alia, with measures for adequate provisioning for externally aided projects, advance release of Additional Central Assistance to the States and strengthening of procurement procedure. It is also involved in 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. During 2004-05 the total external assistance disbursed on Govt. & Non-Govt. account was Rs.11816.041 crore (as on 31.1.2005) against a total of Rs. 18487.83 crore during 2003-04. As regards the Additional Central Assistance to the States/UTs, Rs.7148.40 crore has been released during 2004-05 as on 15.3.2004 against BE of Rs.7000 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).

13. 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 Organisation, 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 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 falling within the field of delegated powers.
4. Assisting in formulation of schemes involving substantial expenditure from their initial stage; settlement of audit objections, C&AG draft Audit paragraphs pertaining to the Demands mentioned in para 2 above.
5. Coordination/Monitoring implementation of Report of the Expenditure Reforms Commission on Department of Economic Affairs.

II. INTERNAL WORK STUDY UNIT (IWSU)

1. Work study, O&M meetings.
2. Review of Channels of Submissions and Levels of Disposals.
3. Annual Inspection of Sections in the Department of Economic Affairs.
4. Review of Record Retention Schedule of DEA.
5. Monitoring of VIP References received in DEA.
6. Co–ordination with Department of Administrative Reforms & SIU.
7. Parliament Question-information regarding.
8. Monthly review & Special Drive on recording, indexing, reviewing and weeding out of files.
9. Review of Rules, Regulations and Manuals.
10. Compilation or orders/instructions; review of periodical Reports and Returns.
11. Preparation of Induction Material, Organisation Chart, Work Distribution Chart etc.
12. Numerical abstract of cases pending over a month.
13. Delegation of Financial and Administrative Powers to Executing Agencies.
14. Disputed Receipts received in the Department.
15. Scheme for grant of Cash Awards to Sections for showing high performance in O&M Activities.
16. Award scheme for Central Govt. Employees as well as members of the public.
17. Preparation of Detailed Demands for Grants of the Ministry of Finance.
18. Coordination work relating to Standing Committee of Parliament on Finance.
19. Monitoring progress on settlement of C&AG Audit Paras and PAC Recommendations.

CHAPTER II

DEPARTMENT OF EXPENDITURE

The business allocated to the Department of Expenditure is carried out through (1) Establishment Division (2) Plan Finance Division (3) Finance Commission Division (4) Staff Inspection Unit (5) Cost Accounts Branch (6) Controller General of Accounts and (7) Central Pension Accounting Office.

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.

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 Dir (A) as Member and US (A) as Member Secretary.

By nature of work, this Department is not generally grievance prone. The number of grievances received from public is negligible. However, a Public Grievance Redressal Machinery with Joint Secretary in charge of Administration as the Director of Grievances is functioning in the Department.

A "Complaint Committee" has been constituted in this Department as per the guidelines of the Supreme Court for redressing the grievances of women.

During the year 2004-05, 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 body employees [like ICAR/UGC] and legal/Court matters thereon, received from various Ministries/ Departments were addressed in an appropriate manner.

A Task Force had been constituted by this Department in September, 2003 under the Chairmanship of Shri D. Swarup, Secretary (Expenditure) [then AS (Expenditure)] 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.

This Ministry had constituted a Task Force in January, 2004 under the Chairmanship of Shri D.N. Padhi, AS&FA, Min. of Food to review the General Financial Rules (GFRs), 1963 to see that these are not outdated or redundant and are in tune with the imperatives of a liberalised and growing economy. The Terms of Reference of the Task Force were to carry out a comprehensive review of GFRs, 1963 with a view to promoting efficiency and transparency in Government Financial Systems and Procedures, keeping public interest in view. The Task Force submitted its report (Revised GFRs) in August, 2004. As the GFRs include the whole gamut of financial system, the report is being finalised in consultation with various nodal Departments/organisations of GoI.

The Expenditure Reforms Commission which was set up to review the entire gamut of Government Expenditure completed its work on 30.9.2001 and submitted in all ten reports covering 36 Ministries/Departments. The recommendations contained in these reports were forwarded to all Ministries/Departments for implementation. The Commission had identified about 42000 posts in the Central Government and Autonomous Bodies for abolition. Around 24000 posts have been identified for abolition by various Ministries/Departments and out of these, around 18682 posts have already been abolished.

The Department of Personnel & Training vide their O.M. dated 16.5.2001, imposed a restriction 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 98000 posts have been identified for abolition and about 41800 posts have been identified for direct recruitment during 2000-01to 2004-05, as a result of these instructions.

It is Government's constant endeavour to contain non-plan, non-developmental expenditure. It is in this context that, alongwith other measures, instructions to avoid wasteful expenditure are issued by the Ministry of Finance from time to time to all the Ministries/Departments. Austerity instructions were accordingly issued by Ministry of Finance on 24.9.2000. The Ministry of Finance has issued fresh guidelines on expenditure management – fiscal prudence and austerity on 24th September, 2004. These measures, inter-alia, include all profit making PSEs to declare a minimum dividend of 20% on equity or post tax profits; mandatory 10% cut in the budgetary allocations for non-plan non-salary expenditure as well as the expenditure on petrol/oil/lubricants and travel; revision of non-tax receipts so as to ensure recovery of the cost of services; ban on the creation of posts, reduction in the number of sanctioned posts; restrictions on purchase of new vehicles; restrictions on foreign travel and on entertainment/hospitality expenses; review by the administrative Ministries/Departments of release of funds to those Autonomous Institutions having substantial balances unutilized with them and kept in deposit with the Banks, reduction in a graded manner of release of deficit grants to those Autonomous Institutions which have potential of raising funds.

Amount exceeding Rs.2000 crores is expected to be mobilized by these austerity measures. Ministries/Departments have been requested to ensure strict compliance of these austerity instructions.

Computerisation in Department of Expenditure

1. Circular Information System (CIS) : Circulars are issued by various divisions of Department of Expenditure and they have effect in all financial/accounting matters of all government departments. Regularly new circulars are issued and existing circulars are modified/over-ruled/nullified.

CIS is a browser-based software package to update the information in respect of new circulars and disseminate the information to other government departments. The circulars are classified according to Subject, classification code, section, circular no. and date of issue of circulars.

Presently this software is available on the Intranet. It is proposed to make it available to other Government Departments by linking it to the web site.

2. Parliament Questions: Parliament questions and answers provided by the Department are sent to Parliament through e-mail. All the sections entrusted with the task of answering specific questions, prepare the answers and send to parliament through e-mail.

3. Composite Payroll Software (CPS): 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. The necessary hardware and network are in place. The software would be made operational after completion of master data entry.

4. Loans, Grants and Investments Monitoring System: This system was developed and implemented for State Loan section of the Office of CCA of the Ministry of Finance. It enables to monitor the releases to states made by the Department, the repayments made by the States, defaults and outstanding balances in respect of loans, grants and investments.

2. PLAN FINANCE-I

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 State 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 advise 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 relation and provides inputs for Inter-State Council, Zonal Council and North Eastern Council.

Apart from the items listed above this division handles a number of 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.

2.1 STATE PLAN SCHEMES :

There are various State Plan Schemes under which the funds are provided to the State Governments for implementation of the developmental schemes. Apart from, normal releases being made to the State Government under various regular schemes under plan, such as Normal Central Assistance, Additional Central Assistance for Externally Aided Projects, Grants for Border Area Development Programme and Hill Area Development Programme, the funds under new schemes are being provided to the State Governments under State Plan. Allocation and release position of the various State Plan Schemes for the year 2004-05 is at Annexure ' I '. The scheme-wise brief in respect of each programme is as under :

2.1.1 Pradhan Mantri Gramodaya Yojana (PMGY) :

This Scheme was introduced in 2000-01to 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 Sarak 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 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.

2.1.2 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.

Scheme can be got implemented by involving Panchayati Raj Institutions 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 by Neighbourhood/Mohalla Committees in urban areas. The monitoring can also be made through Panchayats & Municipalities by following up delays in sanction & disbursement. 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.

2.1.3 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.

2.1.4 Urban Reforms Incentive Fund (URIF) Scheme :

A new scheme was announced in 2002-03 namely Initiative for strengthening Urban Infrastructure for implementing reforms in the Urban Sector. Cabinet in its meeting held on 28.6.2003 had approved the proposal of Implementation of Urban Reforms Incentive Fund (URIF) scheme with an outlay of Rs. 500 crore per annum as Additional Central Assistance (ACA) during the 10th Plan. Accordingly, a provision of Rs. 500 crores was made in 2002-03 budget of Ministry of Finance for the implementation of the URIF to be provided as Additional Central Assistance to Annual Plans of the States. However, funds could not be released to the States during 2002-03 as the scheme was approved by the Cabinet on 28.6.2003. Allocations under URIF be continued every year in the 10th Plan till identified urban reforms are completed.

In the initial phase seven reform areas will be covered which will later be expanded to include more areas. The details of the reform areas and weightages given to the respective reform are as under :

Sl. No.	Reform Area	Weightage
1.	Repeal of the Urban Land Ceiling and Regulation Act at the State level by Resolution;	10%
2.	Rationalization of Stamp Duty in phases to bring it down to no more than 5% by the end of the Tenth Plan Period;	20%
3.	Reform of rent Control Laws to remove rent control so as to stimulate private investment in rental housing;	20%
4.	Introduction of computerized processes of registration;	10%
5.	Reform of Property Tax so that it may become a major source of revenue of urban local bodies and arrangements for its effective implementation so that collection efficiency reaches at least 85% by the end of 10th Plan period;	10%
6.	Levy of reasonable user charges by Urban Local Bodies, with the objective that full cost of O & M (Operation & Maintenance) is collected by the end of the Tenth Plan period;	20%
7.	Introduction of double entry system of accounting in urban local bodies	10%
	Total	100%

The State-wise allocation of funds under this scheme has been determined on the basis of percentage of urban population of the State/UT to the total urban population of the country. The year-wise Annual Additional Central Assistance is being released as a 100% grant. Funds are being released by Ministry of Finance as ACA on the recommendations of the Ministry of Urban Development & Poverty Alleviation.

2.1.5 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 Cabinet Committee on Economic Affairs.

2.1.6 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.

2.1.7 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.

2.1.8 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.

2.1.9 Funds Requirement for Backward District Initiative

Under the scheme Rs. 45 crore has been allocated to each of the backward district in the Tenth Plan. The total amount is to be released in three years i.e. @ Rs. 15 crores each year to each of the identified backward district. The funds under the scheme is provided under ACA as 100% grant.

2.1.10 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 multi purpose projects, where substantial progress had been made but was beyond the resource capability of the States. Multipurpose projects category, only major and medium irrigation 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.

Reforming	Special Category States and KBK District of Orissa 1:0 (Centre : State)	General Category States 3:1 (Centre : State)
Non-Reforming	3:1 (Centre : State)	2 : 1 (Centre: State)

Till March, 2004, total Rs. 14700 crores have been made available to States under the scheme. Twenty-eight major and medium projects have been completed creating an irrigation potential (CLA) of 2.2. million hectares.

2.1.11 Accelerated Power Development Programme (APDP) :

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 66KV) 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. It has two main components given as under:

(a) Investment component for strengthening and Upgradation of the sub-transmission and distribution system; and

b) Incentive component to encourage/motivate utilities to reduce cash losses.

2.1.12 Investment Component :

The funding mechanism under the scheme is similar to earlier APDP scheme i.e. in the ratio of 90:10 to the Special Category States and in the ratio of 50:50 to non-Special Category States. The non-Special Category States have to manage 50% of their share of project cost through internal resources or by way of loans from PFC/REC/FIs/Suppliers Credit.

2.1.13 Incentive Component :

In the incentive scheme the States would be incentivised upto 50% of the actual total loss reduction by SEBs/Utilities as grant. Financial year 2000-01 is the base year for calculation of loss reduction in subsequent years. Losses would be 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. On the basis of overall level of loss reduction incentive eligibility would be decided. The incentive grant shall be utilized in improvement of Power Sector alone. The funding of incentive component would be by way of 100% grant to all the States.

2.1.14 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.

2.1.15 Debt-Swap Scheme

In order to help the States to capitalise on the current low interest regime, GoI has formulated the debt swap scheme. The scheme enables States to pre-pay expensive loans contracted from Govt. of India in the past, with current low coupon bearing small savings and open market loans. The Debt Swap Scheme impacts on the interest burden through the gradual conversion of the high cost debt into a low cost debt. The process will help the States in reducing the burden of interest payments in the years to come.

During the year 2002-03, 20% of net small savings loans payable to States from September, 2002, was used to pre-pay the past debt. This has been supplemented by Rs.10, 000 crore of Open Market Borrowings for the same purpose. During 2002-03, outstanding high cost debt as of 31st March 2002 amounting to Rs. 13765.58 crores owed by the State Governments towards GOI was swapped against small savings loans and Additional Open Market Borrowings.

In the financial year 2003-04, 30% of net Small Savings Loans payable to States apart from Market Borrowings of about Rs. 23,000 crores was envisaged for debt swap under the scheme. During 2003-04, an amount of Rs. 44566 crores of outstanding high cost GOI loans has been swapped with small savings of Rs. 17943 crores and additional open market borrowings of Rs. 26623 crores.

During the year 2004-05, 40% of net Small Savings Loan payable to States apart from AOMB of Rs.24000 crore is envisaged for Debt Swap under the above scheme. Total of Rs.16169.06 Crores has been used for swapping high cost loan on AOMB Head so far and an amount of Rs.22764.90 under SSL during the current year. Thus as against an outstanding high cost loan of Rs.47441.62 crores at the beginning of the financial year 2004-05, debt amounting to Rs.38933.96 crores has been swapped/paid back leaving an outstanding amount of Rs.6611.80 crores still to be recovered from states. Rest was repaid by the States in normal course.

Annexure 'I'

A Statement Showing The Allocations & Releases Made To States Under Various State Plan Scheme During 2004-05

(Rs. crores)

S. No.	Item	Allocation	Releases
1	Normal Central Assistance	25188.07	18194.34
2	Additional Central Assistance for EAPs	7000.00	6631.88
3	Additional Central Assistance under PMGY	2766.00	1140.97
4	Additional Central Assistance under NSDP	677.00	295.42
5	Additional Central Assistance	0.00	235.35
6	Special Central Assistance for Hill Areas/WGDP	160.00	100.46
7	Special Central Assistance for Border Areas	325.00	180.64
8	Special Central Assistance	0.00	500.00
9	Central Loan Assistance for AIBP	3670.00	728.32
10	Central Assistance for APDRP	3500.00	73.00
11	Special Plan Assistance	2300.00	1013.00
12	National Social Assistance Programme (NSAP)	1186.00	443.58
13	Rural Electrification Programme (REP)	600.00	0.00
14	Initiative of Strengthening Urban Infrastructure (ISUI)	500.00	0.00
15	Development and Reform Facility (DRF)/RSVY	3340.00	751.88
16	Nutrition Programme for Adolescent Girls (NPAG)	141.40	0.00
17	Marugochar Yojana	0.00	0.00
	Total	**51353.47**	**30288.84**

3. PLAN FINANCE - II

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 crores 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 crores 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 1.1.2004 to 31.12.2004, 39 EFC meetings chaired by Secretary(E) considered Plan investment proposals/ schemes of various Ministries/Departments costing Rs.29988 crores. Also, 21 meetings of PIB were held and 22 projects (including RCEs) with a capital outlay of Rs.36915.03 crores were recommended for obtaining CCEA approval. The Ministry/ Department wise position of projects considered by PIB is as below:

S.No.	Ministry/Department	No. of projects recommended for approval	Estimated Cost (Rs. crores)
1.	M/o Power	10	13506.52
2.	D/o Coal	7	7083.45
3.	D/o Fertilizers	2	2360.24
4.	M/o Civil Aviation	1	9474.95
5.	D/o Mines	2	4489.87
	Total :	**22**	**36915.03**

Based on the exercise taken up in November, 2004, 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 2004-2005(RE) works out to Rs.107475.78 crores (IR-Rs.74985.73 crores and EBR-Rs.32490.05 crores). Similarly, the IEBR assessed for Annual Plan 2005-06(BE) is of the order of Rs.129951.33 crores (IR-Rs.79883.86 crores and EBR-Rs.50067.47 crores). Planning Commission decides the extent to which the IR/IEBR will be utilised for funding the Plan.

Plan Finance II Division also deals with financial restructuring of central PSUs in consultation with Controller General of Accounts. Restructuring proposals of 12 CPSUs were examined during the period 1.1.04 till 31.12.04.

Plan Finance II Division also deals with issues relating to Food, Fertilizer and Petroleum subsidies.

4. FINANCE COMMISSION DIVISION

The Finance Commission Division is concerned with the implementation of the recommendations of the Finance Commission. The Eleventh Finance Commission (EFC) was constituted by the President on 3rd July, 1998. The Commission submitted its main report for 2000-05, covering all aspects of its original mandate on 7th July, 2000. The main report along with the explanatory Memorandum was laid on the Table of both the Houses of Parliament on 27th July, 2000. The Government accepted the recommendations of the Commission regarding devolution of share in Central Taxes and Duties, Grants-in-Aid to cover non-plan gap on revenue account, grants-in-aid for upgradation of standards of administration and specific grants to States for special problems, Grants to States for financing local bodies, financing of calamity relief expenditure and debt relief to States. Subsequently, the Commission submitted its report on 30th August, 2000, on the additional terms of reference relating to monitorable fiscal reforms programme. This report alongwith the explanatory memorandum was laid in Parliament on 19.12.2000. The recommendations made in the supplementary report of EFC were accepted by the Government. The year 2004-05 is the last year of the award period of the Eleventh Finance Commission.

The 12th Finance Commission, which was constituted under the Chairmanship of Dr. C. Rangarajan has submitted its recommendations for the next five years 2005-06 to 2009-10. The recommendations of the 12th Finance Commission would be operative w.e.f.1.4.05.

4.1 Devolution of Shares in Central Taxes and Duties

As per the Constitution, a prescribed percentage of the net proceeds of all central taxes and duties is to be assigned to the States within which that tax or duty is leviable in that year and distributed among those States. For the period of five years commencing from 1.4.2000, the Eleventh Finance Commission recommended 29.5% of the net proceeds of Central taxes/duties for distribution amongst such States where it is leviable.

4.2 Grants-in-aid to cover the non-plan gap on Revenue Account and Incentive Fund

The Eleventh Finance Commission recommended Grants-in-aid amounting to Rs.35359.07 crores to 15 States equal to the amount of deficits assessed for each year during the period 2000-05. It was recommended further in the supplementary report that 15% of the revenue deficit meant for revenue deficit States during 2000-05 may be credited to Incentive Fund. The Revenue Deficit Grant recommended for 2004-05 is Rs. 5626.60 crores. An amount of Rs. 4782.61 crores (85% of the grant) is to be released to the States concerned during the current year. Non-plan Revenue Deficit grant of Rs. 4419.00 crores has been released upto 10-2-2005.

4.3 Grants-in-aid for upgradation of standards of administration and special problems:

The Finance Commission recommended grants for the period 2000-05 amounting to Rs.3843.63 crores to all the States for 12 specific purposes. In addition, it has recommended specific grants for special problem amounting to Rs.1129 crores. Upgradation grants amounting to Rs. 3090.15 crores were released to the States upto March 2004. On account of States non complying with some conditions and lower utilization, it has been possible to release grants of Rs.331.85 crores only upto 10/2/2005 as against budget provision of Rs. 1268.06 crores.

4.4 Grants for local bodies

The Finance Commission recommended grants totaling to Rs.10,000 crores for local bodies during 2000-05 for maintenance of civic services in rural and urban areas. Annually Rs.1600 crores are to be released for rural local bodies and Rs.400 crores for urban local bodies. During the current year 2004-05 grants amounting to Rs.1367.17 crores have been released to States upto 10/2/2005 as against the budget provision of Rs 3443.72 crores on account of lower utilization by States.

4.5 Calamity Relief Fund and National Calamity Contingency Fund

Calamity Relief Fund (CRF) and Investments there-from was constituted and administered during the period 1995-2000 pursuant to the recommendations of the Tenth Finance Commission. The Eleventh Finance Commission (EFC) was required to review the scheme of CRF and to make appropriate recommendations. EFC, recommended the continuation of the CRF scheme with certain modifications w.e.f 1.4.2000 with an aggregate size of Rs.11007.59 crores during 2000-05 with Centre's share of Rs. 8255.69 crores , and the States' share of Rs.2751.90 crores, worked out in the ratio of 75:25. The Eleventh Finance Commission, to deal with the calamities of rare severity, recommended the constitution of the

National Calamity Contingency Fund(NCCF) . NCCF replaces the earlier scheme of National Fund for Calamity Relief, which was in operation during the Tenth Finance Commission award period. The Eleventh Finance Commission also recommended that Central assistance to the States in national calamities should be financed by levy of a special surcharge on the Central taxes for a limited period. The NCCF scheme came into force w.e.f 1.4.2000. The initial corpus of NCCF of Rs.500 crores was provided by GoI.

Out of the Centre's share of CRF of Rs.8255.69 crores , a sum of Rs. 6355.48 crores was released to the States during the years 2000-01 to 2003-04. During the current year a sum of Rs.1849.34 crores has been released to States as Centre's share upto 10/2/2005. Out of NCCF, Central Assistance of Rs.7203.57 crores has been released to the States during the year 2000-01 to 2004-05 upto 10/2/2005, towards calamities of rare severity. High Level Committee has approved following amounts of grants for Tsunami affected States:—

Andhra Pradesh	Rs. 46.18 crores
Kerala	Rs.138.60 crores
Tamil Nadu	Rs.983.68 crores

Out of above assistance approved, Rs.450 crores were released to these States in advance.

It is estimated that latest requirement of funds during the current year would be upto Rs.2800 crores as against the BE of Rs.1600 crores.

4.6 Fiscal Reform Facility of the States (2000-01 to 2004-05)

Eleventh Finance Commission recommended a scheme on the States Fiscal Reform Facility. The Scheme invites the State Governments to draw up a Medium Term Fiscal Restructuring Programme (MTFRP) for the five year period. For monitoring the fiscal reforms of the States, flexibility in designing the MTFRP is left to the States. MTFRP have been received from all the 28 States and discussed in the meeting of the Monitoring Committee. 23 States have signed Memoranda of Understanding / Letters of exchange with the Ministry of Finance. An amount of Rs. 5755.86 crores have been released to the States from the Incentive Fund during the years 2001-02 to 2004-05. During the current year amount released from the Incentive Fund upto 10/2/2005 is Rs. 1430.28 crores.

4.7 Debt Relief to States

The Eleventh Finance Commission, in its main report, felt that the States should get an opportunity to get a higher quantum of relief by improving their fiscal performances and recommended a scheme of **'debt relief'** based on improvement in the fiscal performances of the States, on their revenue account.

So far, Rs.231.71 crores of debt to six States Governments, namely Andhra Pradesh, Arunachal Pradesh, Tamil Nadu, Punjab, Haryana and Manipur, have been written off under the scheme.

5. STAFF INSPECTION UNIT (SIU)

The Staff Inspection Unit was set up in 1964 with the object of effecting economies in manpower consistent with administrative efficiency and evolving performance standards and work norms in Government Offices and Institutions, wholly or substantially dependent on Government Grants. Its Officers also serve as Core Member on the Committees appointed to scrutinize manpower requirements of Scientific and Technical Organizations. One of the prime object of SIU studies is also to cover the aspect of upgradation/adoption of information technology to cut down delays/ improve efficiency by Ministries/Departments as a part of focus on E-Governance. Further, in pursuance to the recommendation of Expenditure Reforms Commission, apart from undertaking establishment evaluation studies, emphasis of SIU studies has also been to examine the need for a particular activity/activities to be carried out by the concerned Government organization as also to explore the possibility of outsourcing activities, if any.

During the year 2004, SIU issued 18 reports covering 9795 sanctioned posts and demand for creation of 387 additional posts in 18 Offices, which includes one norm study. The staffing studies resulted in identifying 1364 surplus posts out of the sanctioned strength of 9795 posts. SIU also did not find justification for creation of 257 additional posts. The studies during the year have resulted in an economy of Rs. 20 crores p.a. In addition, provisional reports on 12 staffing studies and one norm study with a total coverage of 14258 sanctioned posts were also issued during the period. This included studies of India Security Press, Nasik and Currency Note Press, Nasik having a combined sanctioned strength of 10871. During the year, SIU was also associated as Core Member with two manpower assessment Committees for scientific and technical organizations covering 1093 employees.

Upto 2004 from its inception, SIU has completed 1380 studies covering 7,18,820 posts under staffing studies out of which 1,06,962 posts were found surplus. In addition, the demand for creation of 98,176 new posts was not found justified.

6. COST ACCOUNTS BRANCH

Cost Accounts Branch (CAB) is an expert Financial/Cost Accounting Body functioning in the Department of Expenditure, Ministry of Finance, advising and assisting all Ministries and Departments of the Central Government and even State Governments in areas of Pricing, Cost Management and Cost reduction, inter ministerial disputes on pricing and allied issues. As per allocation of Business Rules, 1961, the CAB has been assigned the role of advising Ministries and Government Undertakings on Cost Accounts matters and attending to cost investigation work on their behalf. 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. The role of CAB got further enlarged and extended to fixing prices for a number of products covered under the Essential Commodities Act such as Petroleum, Steel, Coal, Cement etc. under the Administered Price Mechanism (APM) in due course along with growth of economy particularly in industrial and services sector.

Cost Accounts Branch is staffed by Professional Cost/ Chartered Accountants only who are members of the Indian Cost Accounts Service, one of the six Central Accounting services of the country.

CAB is the repository of expertise in the Government in Cost and Management Accounting. It has requisite expertise in dealing with cases 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. It is rendering professional assistance to various Ministries and Govt. agencies in their day-to-day functioning. In the post liberalization era, CAB is receiving and conducting studies in synchronization with liberalization policy of the Govt. in addition to the traditional areas of cost-price and escalation studies.

Cost Accounts Branch has emerged an independent pricing agency of the Central Government for conducting cost-cum-pricing studies. The cases referred by various Ministries/Departments are on the matters relating to determination of cost of production/fair selling prices of various industrial products, consumer products, services, etc. and also for expert professional advice in the matters of tariff fixation, advice on the specific references emanating from the implementation of Central Excise Act, 1944, issues relating to introduction of commercial accounting, conducting system studies, profitability studies etc.

Chief Adviser (Cost), as Head of the Indian Cost Accounts Service (ICAS), assists the Department of Expenditure, in matters relating to the cadre administration including training requirements of the officers for continuous up-gradation of their knowledge and skills. CAB is the Headquarter of the Indian Cost Accounts Service.

The major areas of functions of 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 2004 to December 2004, the cost/ pricing studies completed by the Cost Accounts Branch may be broadly categorized under the following heads:

(I) Industry-wise Studies

(a) *Pharmaceutical Industry*

— Determination of norms for Conversion Cost, Packing Charges and Process Loss to facilitate fixation of prices of Drug formulations under DPCO 1995 for the year 2003-04. The job entailed detailed analysis of cost profiles, production process, nature of cost – fixed, variable, semi-variable, packing process etc. of 22 manufacturing units spread across India.

(b) *Single Super Phosphate Industry*

— Cost study of Single Super Phosphate (SSP) to facilitate fixation of Maximum Retail Price (MRP) by respective State Government and to fix fair amount of subsidy to be given by Central Government. This study involved detailed analysis of costing and other factors of SSP industry spread all over India.

(c) *Ordnance Factories*

— Techno-economic study of manufacture of steel boxes by Ordnance Factories.

(II) SYSTEM STUDY

— Cost study for fixation of normative cost of Naval Ships manufactured by various Defence Shipyards and norms for Hull portion of warships.

(III) Fair price determination of goods purchased/services utilized on Single Tender Basis or from limited sources.

— Woolen/Handloom fabrics procured from KVIC and ACASH.

— Insecticides supplied to NMEP by HIL;

— Review of costing method of Heavy Water and accounting and pricing of Heavy Water Pool;

— Fixation of fair price of compensation for supply of Uranium by Uranium Corporation of India Limited (UCIL) to the Department of Atomic Energy (DAE) for the year 2003-04.

— Vetting of prices of Ayurvedic/Unani Medicines supplied by M/s. IMPCL to CGHS dispensary during the year 2003-04.

(IV) Fair selling price of products/service where Govt. is the Producer/Service provider as well as the user.

— Tear Smoke Munitions manufactured by Tear Smoke Unit (TSU), Tekanpur and consumed by various Central Paramilitary forces and State Police Organizations.

— Determination of fair selling price of Tear Gas Gun (TGG) for the year 2004-05 manufactured by CENWOSTO, BSF, Tekanpur, Gwalior.

— Determination of fair selling price of Multi Barrel Launcher (MBL) for the year 2004-05 manufactured by CENWOSTO, BSF, Tekanpur, Gwalior.

(V) 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 Soyabean during 1998-99 Kharif 1998 season.

(ii) Vetting of accounts for determination of share of loss of Central Government in respect of Market Intervention Scheme (MIS) for Red Chillies in the state of Andhra Pradesh during 2001 season.

(iii) Verification of claims made by M/s. NAFED in respect of Price Support Scheme (PSS) for Sunflower seeds for the Rabi Crop 2000-01, 2001-02 season.

(iv) Verification of claims in respect of Market Intervention Scheme (MIS) for Ginger in the State of Mizoram during 2003-04 season.

(v) Revision of storage charge rate payable by Food Corporation of India (FCI) to Central Warehousing Corporation (CWC) for the year 2002-03.

(VI) Determination of subsidy payable to Northern Railways for catering in Parliament House Complex and Prime Minister's Office.

(VII) 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 2003-04.

(VIII) Other miscellaneous studies conducted by CAB during the year 2004 are as under:-

— Fixation of overhead rate to be included in the sale price of Hydrogen Gas manufactured at IMD, Hydrogen factory, Agra.

— Fixation of overhead rate for the India Meteorological Department (IMD) workshop at Pune.

— Review of cost of conducting Professional Training Courses and Management Development Programme by NIFM, Faridabad.

— Formulation for calculation of expenditure allocable to Custom (Expenditure) Budget from Union Excise (Expenditure) Budget.

— Invoking of Book Examination Clause in respect of tender No.108/94 for supply of PSC turnout slippers by M/s. Malu Sleepers (Maharashtra) Pvt. Ltd.

— Revision of rates of Express Parcel Post (EPP).

— Concurrent Audit of Escalation/de-escalation claim of various Fertilizer companies.

— Cost of CGHS facilities for employees of Autonomous Bodies and Semi-Govt. Organisations 2001-05.

— Subsidy on new extension counters opened after Ist April 2004 for distribution of Domestic LPG in Laddakh Region under Freight subsidy (for Farflung Areas) scheme 2002.

— Mail rate payable to Indian Airlines Limited by Department of Posts for Carriage of Domestic Mail during 2001-02.

— Costing of various digital products of Survey of India

Officers of Cost Accounts Branch, because of their expertise in commercial accounting, have also served as Chairman/Members on the following major multi-disciplinary Inter-Ministerial/Expert Committees:

(a) National Pharmaceuticals Pricing Authority under the Department of Chemicals & Petrochemicals.

(b) Fertilizer Industry Coordination Committee which deals with the Retention Price/Concessional Scheme for Fertilizer Industry.

(c) Steering Group for revamping the management system of Department of Family Welfare.

(d) Standing Committees set up by various Ministries/ Departments for fixation of responsibility for time and cost overruns.

(e) 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.

(f) To study of pricing/costing of services and products of Survey of India.

(g) Working group to suggest modalities and parameters for determining the procurement and export prices of opium.

(h) To examine the outstanding claims amounting to Rs.13.94 crore of Ministry of External Affairs against Steel Authority of India (SAIL).

(i) To consider the procurement of agricultural commodities under the Market Intervention Scheme.

(j) To evaluate the proposal of C-DAC for comprehensive computerization of the operations in the Patent Office, Controller General of Patents, Design & Trademarks, Department of Industrial Policy and Promotion.

(k) Board of Governors and the society of the National Institute of Financial Management (NIFM), Faridabad.

(l) Committee constituted for examination of draft Cost Accounting Rules framed by the Department of Company Affairs in respect of various products.

(m) Committee for review of policy regarding advance payment system on account of CISF deployment in PSUs.

(n) Standing Committee of State Secretaries of Stamps and Registration.

(o) Committee on operationalization and implementation of energy saving measures in the Central Government Buildings/establishments.

(p) Committee for uniform costing and preparation of Proforma accounts for various Mints & Presses.

(q) Committee of Competition Commission of India for consideration of draft regulations prepared by Consultant of D/o Company Affairs.

(r) Steering group for Revamping the Management System of the D/o Family Welfare.

(s) Committee for fixation of deployment charges for CPFs/ RAF – Ministry of Home Affairs.

(t) To carry out a comprehensive review of existing Rate Structure for DAVP Advertisements and to suggest a new structure formula.

(u) Governing Body of Tear Smoke Unit, BSF, Tekanpur, Gwalior.

7. CONTROLLER GENERAL OF ACCOUNTS (CGA)

The Controller General of Accounts is the 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 all the Central and State Governments.
- To coordinate and oversee payment, receipts and accounting matters in the Central civil Ministries/ Departments through the set up of the Civil Accounts Organisation.
- 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 for 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 towards 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 Organisation.

The office of the Controller General of Accounts is responsible for monthly and annual consolidation of Union Government accounts. A detailed analysis of the 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.

Consistent with the best accounting 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 attained in the last few years as only marginal variations have been observed between the Provisional Accounts and final audited Annual Accounts.

During the year under report, CGA's office provided technical support to the Expert Group constituted by the Government to review the Classification System of Government Transactions. A report outlining the framework for introduction of Gender Budgeting in the Government was also prepared by a subgroup which has since been accepted by Government. Government's decision to introduce gender budgeting was also mentioned by the Honourable Finance Minister in his Budget Speech of July 2004. Subsequently, an Inter-departmental Committee under the chairmanship of Secretary (Expenditure) is now looking into the issues pertaining to categorization of schemes from the gender perspective, the accounting mechanism and is preparing the roadmap for its implementation.

Union Government Finance and Appropriation Accounts (Civil) for 2002-2003 were submitted to Comptroller & Auditor General of India during March 2004 and were laid before both the Houses of Parliament on 13th July 2004 along with Union Government (Civil) Report No.1 of 2004 of C&AG of India. A publication titled "Accounts at a Glance 2002-2003" was brought out during this period containing broad and significant features of Government receipts and expenditure.

Information Technology Initiatives: 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

— CONTACT/CONTACT (ORA) : for Consolidation of Accounts in 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.

The Capital Restructuring Cell in the Office of Controller General of Accounts which examines proposals relating to Capital Restructuring of Central PSUs has during 2004-05 scrutinized and provided technical inputs for 14 cases of Public Sector Undertakings.

8. 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 imparting 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 has imparted training to 2210 officials (upto January 2005). The number includes 54 officers of State Governments trained under a three day Seminar on Modernization of Treasuries at Imphal, 56 participants on the programme of New Accounting Formats for use in Hotel Management Institutes. Two programmes on New Pension Scheme were also organized during the year besides two one day workshops on Vigilance awareness week imparting training to 110 participants. The Institute also provided training to the personnel of Tala Hydro Project, Bhutan by sending a four-member team to Bhutan to deliver lectures on 'Works Accounts', 'Internal Audit', 'Computer concepts' and 'Record Management'.

The Institute has been conducting International Training Programmes under SCAAP and ITEC in collaboration with the Ministry of External Affairs besides conducting several other programmes for various Government agencies. Two ITEC programme on 'Public Expenditure Management and Government Accounts and Financial Management' were organized in which 51 participants from 28 countries participated. During the year training on computer application and COMPACT were given to 541 officials.

9. CENTRAL PENSION ACCOUNTING OFFICE (CPAO)

The Central Pension Accounting Office (CPAO) set up on 01-01-1990 is presently administering the "Scheme for Payment of Pensions to Central Government Civil Pensioners by Authorized Banks". Its functions, interalia, include:

- Preparation of Budget under the Pension Grant and Accounting thereof
- Issue of special Seal Authorities (SSAs)
- Internal Audit of Banks

CPAO is functioning as Interim Central Regulatory Authority (CRA) for the implementation of New Pension Schemes in respect of Central Civil Ministries as well as Non Civil Ministries i.e. Defence (except Army Personnel), Railways, Telecom, Audit and Posts.

4,09,118 authorization cases were issued by Central Pension Accounting Office from 01-01-1990 to 31-03-2004.

36275 Pension cases were handled during the financial year 2003-2004. Besides this13387 Revision/Commutation/Transfer authorities were issued.

Budget in respect of Pension Grant for the financial year 2005-2006 had been prepared and forwarded to Budget Division. Since, April 2004, this office had handled 42923 Pension/Revision/ Commutation/transfer cases upto 31st December 2004. With reference to the trend of receipt of Pension/Revision/Commutation/ Transfer cases, we expect to handle approximately 50,000 cases during the financial year 2004-2005.

The Chief Engineer, NZ-3 and Deputy Director, Horticulture (South), CPWD have been requested to provide green cover in the Trikoot office complex.

9.1 Material on E-Governance activities at CPAO

CPAO is a fairly computerized office. Its main function is authorization of pension to the Authorized 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, authorized 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 at CPAO at any stage of processing. The pensioner can inquire about his case any time by giving his PPO Number, from the Inquiry Computer set up at reception.

CPAO has developed its website http:/cpao.nic.in with active technical support of NIC which was launched on 8 October, 2001. This website provides information to the pensioners on the status of their cases. They can also make enquiries and obtain replies from CPAO. Website 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 to pendency at different sections in the office such as Receipt, Despatch, Authorization, 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.

10. 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 25th issue of the series of Brochure for the year 2002-03 in September, 2004. The work regarding the Brochure for the year 2003-04 is in progress.

11. 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 29% to 75% 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 19 employees were nominated for Hindi typing/stenography and 12 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 4 such workshops were organized and 46 employees were imparted training in Hindi. Four workshops were organized for the divisions of Department of Expenditure situated in Lok Nayak Bhawan, Central Pension Accounts Office, Trikoot, Bhikaji Cama Place and Institute of Government Accounts and Finance, JNU Campus.

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 a Hindi magazine "Vyay Patrika" is published by Hindi Section in which first three articles are given Cash award of Rs.1000/-, Rs.750/- and Rs.500/ -respectively.

As per rules, in the year 2004 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 14th September to 28th September, 2004 in which Hindi Essay, Hindi Noting/Drafting, Poetry, Hindi Ashubhashan (Extempore) and Hindi Sulekh Competitions were organized. Those who secured 1st, 2nd and 3rd position were awarded Cash prizes of Rs.1000/- Rs.800/- and Rs.500/- respectively.

In the year 2004 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 Campaign. The campaigning team assessed the progress of Hindi and necessary steps were taken.

12. NATIONAL INSTITUTE OF FINANCIAL MANAGEMENT (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 professinal 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 nd 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. of India. The Board of Governors of the NIFM Society is chaired by the Secretary, Department of Expenditure, Ministry of Finance, Government of India.

The Institute has a total sanctioned strength of 84 (including 28 faculty posts) out of which 66 posts are presently filled.

Professional Training Course – The Institute started functioning from January 1994 and has successfully completed training of ten batches of probationers of various Accounts, Audit and Finance Services. Training of 12th Batch of Probationers has commenced from 10th January 2005, with probationers of Indian Civil Accounts Service (4), Indian Defence Accounts Service (3), Indian P&T

Finance and Accounts Service (Nil), Indian Railways Accounts Service (05). The duration of the training course is 44 weeks.

11th Professional Training Course was completed in the second week of November, 2004. In all, 27 probationers joined the programme. They were from IRAS (09), ICAS (05), IP&TFAS (03) and IDAS (10). In addition, 15 IA & AS probationers also joined the course in August, 2004.

The NIFM conducts Management Development Programmes of varying duration every year. Currently the focus of MDPs is in the following areas:

(a) Budgeting & Expenditure Management (b) Accounting Systems & Financial Management in Government (c) Procurement of Goods, Tendering and Contract Systems in Government & in World Bank Funded Projects, (d) Project Management (e) Public Sector Undertakings – Restructuring, Valuation and Disinvestments (f) Project Financial Management for World Bank Funded Projects (g) Corporate Finance & Capital Markets (h) Taxation (i) Computer Applications in Accounting and Financial Management (j) Human Resource Development.

Some of these programmes are sponsored by different Government Departments, Foreign Governments, World Bank, Asian Development Bank etc. In addition, various Govt. Departments, PSUs etc. sponsor candidates for the specialized courses conducted by the Institute. During 2003-2004 (up to December 2004) 37 programmes have been conducted. In addition to the above, 6 more MDPs are scheduled during January to March 2005.

National Institute of Financial Management (NIFM) had started a PGDFM course from 29th January 2001 which has now been renamed as MBA(Finance) from the year 2002. This year the programme is commencing from 24th January, 2005.

The programme is a mix of 55 weeks of classroom teaching, broken in five terms and 22 weeks of on the job training/ project works. 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. 1st batch will proceed for the Seminar at the end of April, 2005. The teaching methodology is the same as used by leading business schools in the country and the candidates are required to pass rigorous examinations at the end of each term.

The programme is designed to impart knowledge and 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. It also aims at exposing the participants to the opportunities and challenges thrown up by the rapidly changing domain in the field of Information Technology.

NIFM conducted the following seminars in frontier areas of Finance & Accounts on its 10th Anniversary:

1. Seminar on “Global Financial Reporting” on 13th August, 04
2. Seminar on “Approaches to Infrastructure Financing” on 22nd September, 04
3. Seminar on “Fiscal Responsibility and Budget Management Act 2003 and its Implementation” on 12th October, 04. President Sh. P. Chidambaram (Finance Minister) addressed the participants in the Seminar.
4. Seminar on “World Bank Procurement Guidelines – Recent Changes” on 15th October, 04.

During the year 2003-2004 & 2004-05 NIFM carried out two Consultancy projects awarded by M/o Finance, Govt. of India on – (1) Consultancies on review of procurement systems in Govt. of India. (2) Review of General Financial Rules of Govt. Task Force Reports of both the consultancy projects have been submitted.

During the year Institute completed one consultancy project on Rotation of Manpower and Systems in respect of Delhi Vidyut Board Employees Terminal Benefits Fund Trust. The report is submitted to the Board and is under implementation.

The ongoing consultancy projects are on (1) Change over to Accrual System of Accounting and preparation of Annual Report, Financial Statements in the standard formats from IGNOU (2) Change over to Accrual System of Accounting and preparation of Annual Financial Statements in the standard formats from JNU.

Another consultancy project on CGHS consultancy is in the NIFM pipeline.

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.

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 11500 trees/ plants have already been planted in the Institute’s campus. 750 plants of all varieties have been planted during the year. A beautiful Cactus garden is also being developed in the Institute.

13. CHIEF CONTROLLER OF ACCOUNTS (CCA)

Office of the Chief Controller of Accounts handles 9 Grants petaining to the Ministry of Finance as indicated in the Table given below. These account for about 66% of the civil expenditure of the Government of India in the Budget Estimates for the year 2004-05. Two of these Grants viz. “Interest payments” and “Repayment of debt” account for 84.16% of the total expenditure of the Ministry of Finance in the budget estimates for 2004-05.

(Rupees in crore)

Grant No.	Description	BE (2004-05)	Expenditure (April, 2004 to December, 2004)
32	Department of Economic Affairs	4103.92	450.49
33	Currency, Coinage & Stamps	1425.95	600.67
34	Payment to Financial Institutions	12724.54	9912.95
35	Interest Payments	133499.86	80130.51
36	Transfer to State and UT Governments	70197.47	41276.98
37	Loans to Government Servants etc.	600.00*	Composite grant
38	Repayment of Debt	342119.51**	409553.11
39	Department of Expenditure	26.62	17.06
42	Department of Revenue	396.69	46.94
	Grand Total	**565094.56**	

* Composite Grant
** Includes External Debt (Rs. 13739.34 crores)

Secretary of each department has been designated as Chief Accounting Authority for the respective department. The Chief Controller of Accounts is in overall charge of the accounting organization of the Ministry, supported by two officers at the level of Controller, 4 Deputy Controllers, 25 PAOs/ Sr. AOs and 300 other staffs.

The Chief Controller of Accounts has been assigned certain specialized functions which are given below:—

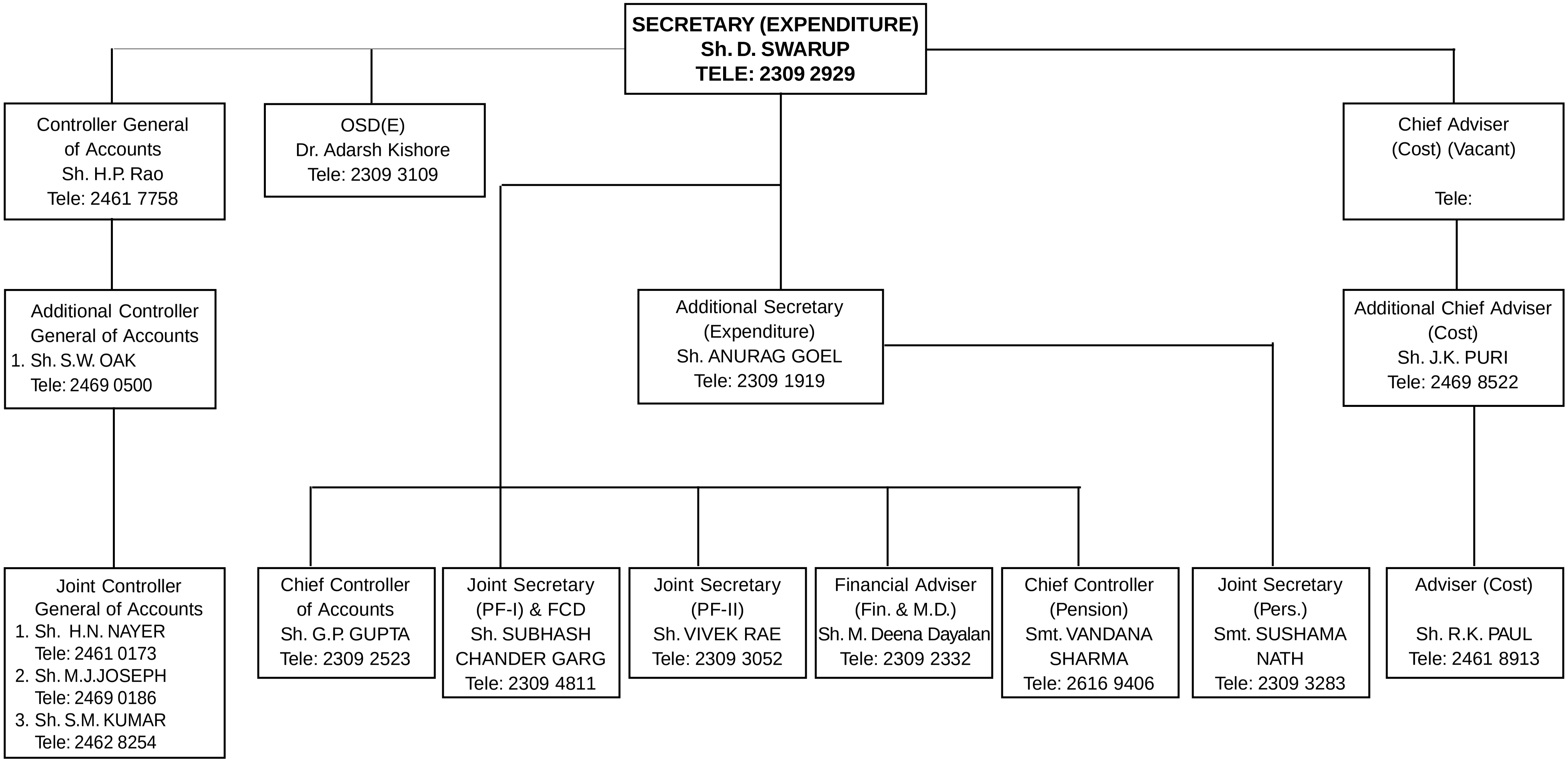
- Release of the State's share of Income Tax and Central Excise Duties.
- Payments of Loans and Grants to State Governments through Reserve Bank of India and watching the repayments of loans and interest thereon.
- Release and watch of repayment of loans to Financial Institutions.
- Accountal of the receipts of the Mints, Presses and Security paper Mill.
- Payment of pension in respect of pensioners of certain other countries settled in India.
- Accountal of loans to foreign governments.
- Booking of receipts and withdrawals from SDS and PPF schemes.
- Preparation of consolidated account of total receipts and payments of all the Ministries/Departments for CGEGIS and calculation of interest of savings fund and insurance fund.
- Internal Work Study and SIU of Ministry of Finance.

Besides the above the Chief Controller of Accounts is also responsible for other routine functions as under:-

- Arranging all payments after pre-check through his Pay & Accounts Officers.
- Ensuring post-check of payments in all cases where the payment function is with the departmental officer. Having watch on expenditure in relation to approved budget.
- Monthly and Annual compilation & consolidation of monthly and annual accounts of the three departments i.e. Department of Economic Affairs, Department of Expenditure and Department of Revenue and its transmission to the Controller General of Accounts.
- Preparation of Annual appropriation accounts duly audited for 9 demands for the grants controlled by the Ministry of Finance.
- Arranging internal inspection of payment and accounts records maintained by the various field formations and Pay & Accounts Offices of each department of the Ministry.
- Accounting for all receipts of the Ministry/Department.

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 V of Finance Act, 1994 (relating to Service Tax)
10. Central Excise Act, 1944 and related matters;
11. Customs Act, 1962 and related matters;
12. Medicinal and Toilet Preparations (Excise Duties) Act, 1955;
13. Central Sales Tax Act, 1956;
14. Narcotic Drugs and Psychotropic Substances Act, 1985;
15. Prevention of Illicit Traffic in Narcotic Drugs and Psychotropic Substances Act, 1988;
16. Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act, 1976;
17. Indian Stamp Act, 1899 (to the extent falling within jurisdiction of the Union);
18. Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974;
19. Foreign Exchange Management Act, 1999; and
20. 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; and
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 2004-2005 with that during the previous financial year is given below:

S.No.	Nature of Taxes	Amounts Collected During the Financial Year		
				(Rs. in crore)
		2003-2004 upto Dec.03	2004-2005 upto Dec.04 (prov.)	%age of growth over last year
1.	Corporation Tax	29,529.52	38,099.69	29.02%
2	Income Tax	23,664.42	26,171.27	10.59%
3	Other Direct Taxes*	304.87	109.85	(-) 63.96%
4	Central Excise Duty	63,616.69	68,503.73	7.68%
5	Customs Duty	36,309.88	41,207.41	13.49%
6	Other Indirect Taxes**	5,977.39	8,331.69***	39.39%
	Total	**1,59,402.77**	**1,82,423.64**	**14.44%**

* *Includes Interest tax, Expenditure tax, Wealth tax, Gift tax and Estate duty.*

** *Includes Service tax, Foreign travel tax, Inland air travel tax.*

*** *This figure includes only Service tax as FTT/IATT has been abolished since January 2004.*

1.1.5 An Organisation Chart of Department of Revenue is given in the Annexure on next page.

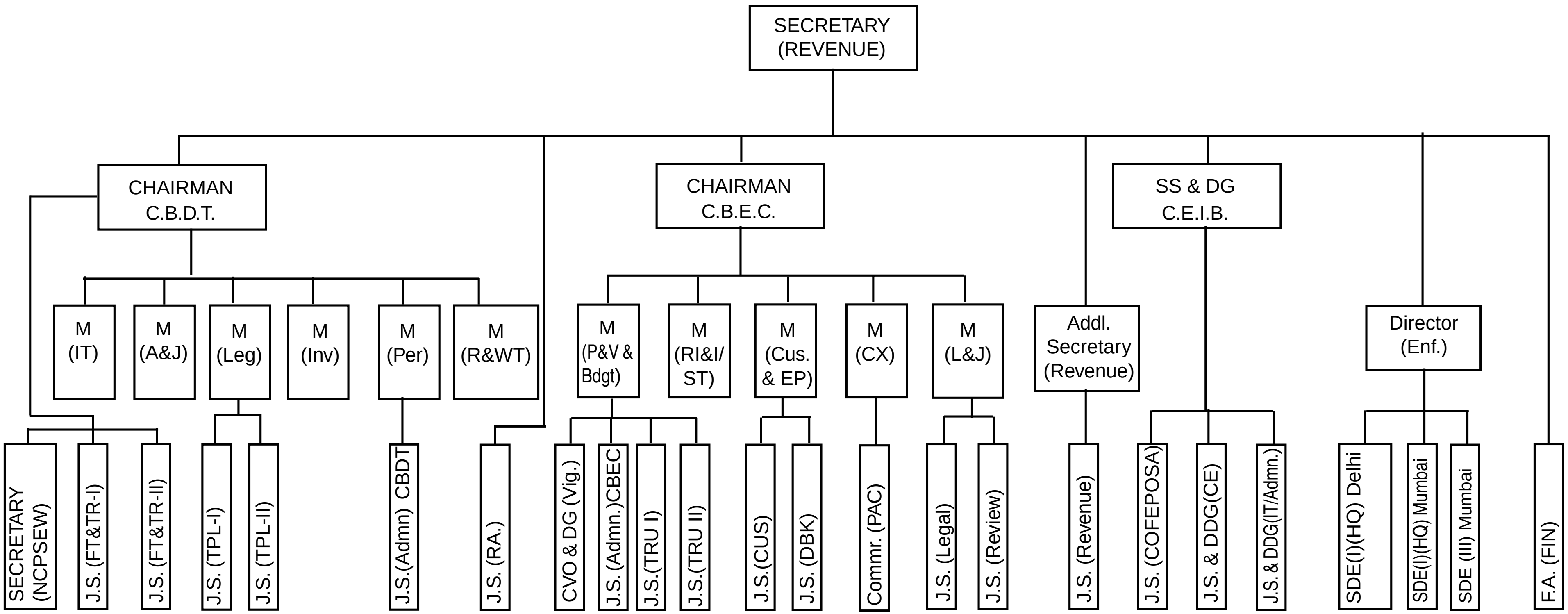
2. REVENUE HEADQUARTERS ADMINISTRATION

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

Annexure 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)

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
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.

3. CENTRAL BOARD OF EXCISE AND CUSTOMS

3.1 Organisation and functions

3.1.1 The 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 the various tasks assigned to it, with the help of its field organizations namely, the Customs, Customs (Prev.) and Central Excise Zones, Commissionerates of Customs, Customs (P), Central Excise, Service Tax and Directorates. It also ensures that taxes on foreign & inland travel are administered as per law and the collection agencies deposit the taxes collected to the public exchequer promptly.

Zones of Customs, Central Excise & Customs (Preventive)

There are twenty-three Zones of Central Excise & Customs, 11 Zones of Customs & Customs (Prev.) spread across the country. These Zones are headed by the Chief Commissioners.

Commissionerates of Central Excise & Customs

There are 93 Central Excise & Customs Commissionerates spread across the country. These Commissionerates perform executive functions entrusted by the Board, predominantly concerning Central Excise duty. Some of these Commissionerates also deal with Customs and anti-smuggling work in their respective jurisdictions. Except the Commissionerates located in the metropolitan cities of Delhi, Mumbai, Kolkata, Chennai, Ahmedabad and Bangalore other Commissionerates also deal with the Service Tax work.

Commissionerates of Service Tax

There are six Commissionerates located at metropolitan cities of Delhi, Mumbai, Kolkata, Chennai, Ahmedabad and Bangalore, which deal exclusively with work related to Service Tax. These Commissionerates are supervised by the jurisdictional Chief Commissioners of Central Excise.

Commissionerates of Customs and Customs (Preventive)

These Commissionerates, 35 in all, are spread all over the country. They have been assigned the following functions:

(a) 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 jurisdiction.
(b) 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.

Task Force for Arrears Recovery Units

In order to recover all realizable arrears of Central Excise and Customs, a Task Force for Recovery, headed by a Chief Commissioner, has been created by the Board. The Head Office of the Task Force is at New Delhi while six Zonal Units, headed by Commissioners (Tax Arrear Recovery), are located at Delhi, Vadodara, Mumbai, Nagpur, Chennai and Kolkata.

Appellate Machinery

There are sixty-seven Commissioners of Central Excise and Customs (Appeals). The appellate machinery, comprising the Commissioners (Appeals), deals with appeals filed against the orders passed by the officers lower in rank than Commissioner of Customs & Central Excise under the Customs Act. 1962, Central Excise Act 1944 and Service Tax laws.

Commissioners (Adjudication)

Four posts of Commissioner (Adjudication) – one each at Mumbai, Chennai, Delhi and Bangalore – have come into being in the reorganized set-up to decide the cases which have all-India ramifications and high revenue stakes. These Commissioners attend to Central Excise as well as Customs cases.

Attached/Subordinate Offices of CBEC

In the performance of the 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
19. Central Revenue Chemical Laboratory

The functions of the above 19 organizations, in brief, are given below:-

1. Directorate of Central Excise Intelligence

(a) To collect, collate and disseminate intelligence relating to evasion of Central Excise duties;
(b) To study the price structure, marketing patterns and classification of commodities vulnerable to evasion of Central Excise duties;
(c) To coordinate action with other departments like Income-Tax etc. in cases involving evasion of Central Excise duties;
(d) To investigate cases of evasion of Central Excise duties having Inter-Commissionerate ramification; and,
(e) 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 loopholes.

2. Directorate of Revenue Intelligence

(a) To study and disseminate intelligence about smuggling;
(b) To identify the organized gangs of smugglers and areas vulnerable to smuggling, targeting of intelligence against them and their immobilization;
(c) 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;
(d) To alert field formations for interception of suspects and contraband goods, assessment of current and likely trends in smuggling;
(e) 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
(f) 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 (Customs and Central Excise)

a) To study the working of Customs, Central Excise and Narcotics departmental machinery throughout the country and to suggest measures for improvement of its efficiency and rectification of defects in it through inspection and by laying down procedures for their smooth functioning;
(b) To carry out inspections to determine whether the working of the field formations is as per Customs and Central Excise procedures, and to make recommendations with regard to the procedural flaws, if any noticed; and,
(c) To suggest measures for improvement in the functioning of the field formations.

4. Directorate of Housing and Welfare

(a) To monitor and co-ordinate with the Board, Ministry and field formations;
(b) To help the field formations in framing the project proposals;
(c) 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;
(d) To devise procedures for accounting and documentation system;
(e) To coordinate with the field formations with regard to the problems of encroachment and abandoned properties;
(f) To prepare and compile Housing Manuals for future guidelines;
(g) To keep the field formations informed about various schemes and facilities available;
(h) 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;
(i) To encourage environment-friendly planning and execution of the projects of the department through horticultural and other environmental planning; and,
(j) To coordinate with the Ministry on welfare measures related to building/acquisition of library, guesthouses, resorts/holiday homes, conference rooms, playgrounds, godowns, garages etc.

5. National Academy of Customs, Excise and Narcotics

(a) To impart training to direct recruits and to arrange refresher courses for departmental officers;
(b) 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,
(c) To arrange study tours of customs and excise officers from neighboring countries under United Nations Development Programme.

6. Directorate of Vigilance

(a) To monitor the vigilance cases against the officers of customs and central excise formations;
(b) To maintain proper surveillance on the officials of doubtful integrity; and,
(c) 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 & 8. Directorate of Systems and Directorate of Data Management

(a) 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.

(b) Directorate of Data Management

(i) 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

(ii) To collect statistics for compilation of statistical bulletins and statistical year book in respect of revenue, arrears, seizures, court cases etc. pertaining to indirect taxes.

9. Directorate of Audit

(a) To provide direction for evolution and improvement of audit techniques and procedures;
(b) To ensure effective and efficient implementation of new audit system by periodic review;
(c) To coordinate with the external agencies as well as other formations within the Department;
(d) To suggest measures to improve tax compliance;
(e) To gauge the level of audit standards and assesses satisfaction;
(f) 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;
(g) To aid and advise the Board in policy formulation and to guide and provide functional directions in planning, coordination and supervision of audits at local levels;
(h) To collate and disseminate the relevant information; and,
(i) To implement EA-2000 audits and related projects like risk management, CAAP audits etc.

10. Directorate of Safeguards

(a) 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;
(b) To identify the articles liable for safeguard duty;
(c) 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.
(d) To recommend the following:-
    (i) the amount of duty which, if levied, would be adequate to remove the 'injury' or 'threat of injury' to the domestic industry;
    (ii) 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,
(e) To review the need for continuance of safeguard duty.

11. Directorate of Export Promotion

(a) To interact with the Export Promotion Councils for various categories of export to sort out the difficulties being faced by the genuine exporters;
(b) To function in close liaison with allied agencies concerned with the exports to ensure that genuine exporters get the full advantages of the Export schemes without any difficulties;
(c) 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;
(d) 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;
(e) 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;
(f) 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,
(g) To work in close coordination with the Board and the relevant sections 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

(a) To monitor the collections and assessment of service tax;
(b) To study the administration of service tax in the field and to suggest measures to increase revenue collections;
(c) To undertake study of law and procedures;
(d) To form a database; and,
(e) To inspect the Service Tax Cells in the Commissionerates.

13. Directorate of Valuation

(a) To assist and advise the Board in the implementation and monitoring of the working of the WTO Agreement on Customs Valuation;
(b) To build a comprehensive valuation database for internationally traded goods using past precedents, published price information or prices obtained from other authentic sources;
(c) To disseminate the price information on a continuing basis to all customs formations for online viewing and 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;
(d) 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;
(e) To maintain liaison with the Valuation Directorates of other customs administrations and customs officers posted abroad;
(f) 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,
(g) 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 & Public Relations

(a) To prepare, revise and publish the statutory and departmental manuals;
(b) To consolidate the instructions issued by the Board in technical and administrative matters of customs and central excise;
(c) To compile the important judgments delivered by High Courts and the Supreme Court on matters relating to indirect taxes;
(d) To update all departmental manuals through correction lists etc; and,
(e) 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 Organisation 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

a. To inspect, assess and evaluate the effectiveness of the staff deployed on anti-smuggling duties in the Commissionerates and in vulnerable areas;

b. To monitor, coordinate and evaluate the progress in cases of adjudications, prosecutions and rewards to informers and officers in various Commissionerates and to watch the progress in disposal of confiscated goods involved in prosecution cases;

c. To plan and assess the need for staff training, equipments, vehicles, vessels, communications or other resources required for anti-smuggling work in various Commissionerates and to evaluate their operational efficiency; and,

d. To deal with the matters concerning acquisition, procurement, purchase, repair and reallocation of such equipment.

17. Directorate of Legal Affairs

(a) To function as the nodal agency to monitor the legal and judicial work of the Board;

(b) To create a data bank of all the cases decided by 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;

(c) 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;

(d) 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;

(e) 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;

(f) 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,

(g) To keep an approved panel of eminent lawyers well versed with Customs & Central Excise laws as well as administration matters, who may not be on the regular panel of the government but may be engaged by the department for handling important cases.

18. Office of the Chief Departmental Representative (CDR)

(a) To receive the cause list of cases from the Tribunal registry and distribute the case files among Departmental Representatives (DRs);

(b) To monitor the effective representation by DRs in all listed cases before the benches of the CESTAT;

(c) To coordinate with and call for cross objections, clarifications and confirmations from the Commissionerates concerned;

(d) To maintain co-ordination with the President, CESTAT; and,

(e) 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 Chemical Laboratory

To analyse samples of goods, and to render technical advice to the Board and its field formations, in regard to the nature, characteristics and composition of various goods.

3.2 Grade-wise Sanctioned Strength in the Field Formations under CBEC

GROUP	Sanctioned Strength
GROUP'A'	2661
Customs	
Group 'B'	4200
Group 'C'	9740
Group 'D'	6226
Central Excise	
Group 'B'	9325
Group 'C'	22147
Group 'D'	7888
Directorates General/Directorates	
Group 'B'	607
Group 'C'	1457
Group 'D'	597
CBN&CCF	
Group 'B'	94
Group 'C'	1011
Group 'D'	1366
Other Formations	
(i.e. Telecom, Marine, Chemical & other posts)	
Group 'B'	256
Group 'C'	1938
Group 'D'	665
Total	**70178**

*** does not include S.S. for CRB posts, Canteen posts etc.*

3.3 INDIRECT TAXES

Customs and Central Excise are two major sources of the Central Government Tax Revenue.

Customs Duty

Revenue from customs duties during 2002-2003 and 2003-2004, based on departmental records, is given below: -

(Rs. in crore)

2002-2003		2003-2004 (Provisional)	
Budget Estimate	Actual realisation	Budget Estimate	Actual realisation*
45193	44912	49350	48613

* *Provisional*

Budget estimate for 2004-05 is at Rs. 54250 crore against which the collection (up to December, 2004) is Rs. 41207 crore (Provisional).

(A) Major Changes Introduced in the Budget 2004-2005 and Post Budget Changes in Customs Duties

The peak rate of customs duty has been reduced from 25% to 20% in general (excluding agriculture and dairy products) w.e.f. 09.01.2004. Special Additional Duty (SAD) was also abolished w.e.f. 09.01.2004. With these changes, the three major ad-valorem rates are 5%, 15% and 20%.

In order to finance the commitment to provide free and compulsory education and to provide nutritious mid day meal to children, a new levy called the 'Education Cess' has been imposed in Budget 2004-05 on items imported into India. It is leviable @ 2% on the aggregate of duties of customs (except safeguard duty under sections 8B and 8C, countervailing duty under section 9 and anti dumping duty under section 9A of the Customs Tariff Act) leviable on such goods. Items attracting customs duty at bound rates under international commitments have been exempted from this cess.

Customs duties on a number of inputs have been reduced. The customs duty was reduced from 20% to 15% on metals such as Ferro alloys, Stainless steel and other alloy steel, (excluding seconds and defectives), Copper, Lead, Zinc, Tungsten, Magnesium, Cobalt, Cadmium, Titanium and Other base metals; minerals namely Graphite, Asbestos, Mica, Fluorspar and Felspar, Gypsum and Other minerals excluding a few items like marble, granite; Refractories, Raw materials for refractories namely, natural graphite powder, aluminous cement, calcined alumina, boron carbide, reactive alumina, silicon metal (99% purity), micro/fumed silica, brown fused alumina, fused zirconia, silicon carbide, sodium hexameta phosphate, phenolic resin, sintered/tabular alumina and fused silica; Zinc spelter/dross and Copper mill scale; and Catalysts. Besides, the customs duty was also reduced from 15% to 10% on all primary, semi-finished and finished forms of iron and steel like ingots and billets, sponge iron, hot-rolled and cold-rolled bars/rods/ foils of non-alloy steel (other than seconds and defectives). The customs duty was further reduced to 5% on non-alloy steel. The customs duty was exempted i.e. CVD on steel melting scrap. The customs duty was reduced from 15% to 5% on ship for breaking up and also exempted from CVD. Also, the customs duty on steel melting scrap was reduced from 5% to 'Nil'.

Customs duty on palm oils (other than crude palm oil) has been increased from 70% to 75%.

As part of the policy of reducing cost of health care, rehabilitation aids such as talking books, talking calculators, talking thermometers, Braille computer terminals have been exempted from customs duty. CVD on these items was exempted by way of excise duty exemption.

Phonographs and cassette players for playing the talking books, magnetic tapes and cassettes for production of talking books, electronic reading machines, television enlargers and optical aids were also fully exempted from customs duty and CVD, if imported by an institution for the blind and deaf.

Customs duty was exempted on instruments and implants for physically handicapped patients, joint replacement, spinal instruments and implants including bone cements, crutches, wheel chairs, walking frames, tricycles, Braillers, etc.

To promote Information Technology, customs duty exemption to mobile switching centers that was earlier available to cellular mobile telephone service providers was extended to imports by universal access service providers.

In order to promote Exports, customs duty on platinum was reduced from Rs.550 per 10 gram to Rs.200 per 10 gram. All rough coloured gem stones (including rubies, emerald and sapphire) were fully exempted from customs duty. Concessional rate of customs duty of 5% earlier available to specified items for use in leather industry was also extended to such items designed for use in non-leather footwear industry. Customs duty on roundabouts, swings, shooting galleries and other fairground amusements was reduced from 20% to 10%. Customs duty has been exempted on patent leather.

Customs duty on specified textile and garment making machinery was reduced from 20% to 5%. Parts imported for manufacture of such machines would also attract 5% customs duty. Customs duty on specified machinery for silk textile industry was reduced from 10% to 5%.

Besides, Customs duty has been reduced from 20% to 15% on specified polymers. Also, the customs duty has been reduced from 15% to 10% on specified intermediates for polymers.

Customs duty on imports of non-edible grade vegetable oils used for manufacture of industrial fatty acids and fatty alcohol has been reduced to 20%.

The customs duty was reduced from 20% to 15% on both Motor Spirit and High Speed Diesel. The customs duty was reduced from 10% to 5% on both LPG and Kerosene for PDS.

Central Excise

Revenue from Union Excise Duties (excluding cesses not administered by Department of Revenue) during 2002-2003 and 2003-2004, based on departmental records is given below: -

(Rs. in crore)

2002-2003		2003-2004 (Provisional)	
Budget Estimate	Actual realisation	Budget Estimate	Actual realisation
91141	82254	96396	90907

Budget estimate for 2004-2005 (excluding cesses not administered by Department of Revenue) is placed at Rs. 108500 crore against which the collection (up to December, 2004) is placed at Rs. 68504 crore (Provisional) (excluding cesses not administered by Department of Revenue).

(B) Major Changes Introduced in the Budget 2004-05 and Post Budget Changes on Excise Duty

To achieve major simplification in the rate structure and to reduce disputes and litigation, excise duty rate structure was rationalized to a single rate 16 per cent CENVAT (with few exceptions) during 2003-04 and 2004-05. Similarly, 8 per cent, a single rate of special excise duty (SED) introduced during 2003-04 continued in 2004-05.

A new levy 'Education Cess' was imposed on excisable goods manufactured in India to give the boost to education sector. It is leviable @ 2% on the aggregate duties of excise leviable on such goods.

Excise duty of 8% was imposed on Contact lenses and Playing cards. Excise duty of 16% has been imposed on specified parts of pre-fabricated buildings such as blocks, slabs, concrete beams and stairs; and Parts of clocks and watches of RSP not exceeding Rs.500 per piece. Excise duty was also increased from 8% to 16% on Cakes and pastries, Plastic insulated ware, Vacuum flasks, Scented supari, Pre-fabricated buildings, Laboratory glassware, Clocks and watches of RSP not exceeding Rs.500 per piece, Monochrome television receivers, Populated printed circuit boards of monochrome television receivers, Imitation jewellery and Candles. However, general SSI exemption would be available to all these items.

Excise duty was reduced from 16% to 8% on gas stoves of RSP not exceeding Rs. 2000 per unit. Computers were exempted from excise duty. Stand alone Central Processing Units (CPUs) will also be eligible for the exemption. Parts captively consumed in the factory of the manufacture of computers were also exempted from excise duty. Excise duty on non-alcoholic beverages, such as chocolates and malted food drinks, prepared and dispensed through vending machines, were exempted.

To promote the agriculture sector, tractors and parts captively consumed in the factory of the manufacture of tractors were exempted from excise duty. Milking machines and dairy machinery were exempted from excise duty. Excise duty on branded and packed preparations of meat, fish and poultry was reduced from

16% to 8%. Excise duty on food grade hexane was reduced from 32% to 16%. Hand tools were exempted from excise duty. Specified plantation machineries were exempted from excise duty. This exemption will be available upto 30th April, 2005.

The Cenvat Scheme was made optional in case of most of the textile items. The mandatory excise duty is limited only to man made fibres and filament yarns (including textured yarns). Man made staple fibres i.e. tows and staple fibres and wastes thereof continue to attract duty of 16%. Polyester filament yarns, including polyester textured yarns attract total excise duty of 24%. Excise duty on other synthetic and artificial filament yarns was increased to 16%. All other textile goods e.g. spun yarns, grey or processed fabrics, garments, made-ups and textile articles were exempted from excise duty provided no Cenvat credit is taken. The exemption is optional. For those opting to pay duty, the rates of excise duty will be 4% for all textile goods made of pure cotton, not containing any other textile material and 8% for other textile goods. Those opting to pay duty will be eligible to avail Cenvat credit. All textile and textile articles were fully exempted from duties under Additional Excise Duty (Goods of Special Importance) Act and Additional Excise Duty (Textiles and Textiles Articles) Act, wherever applicable.

Existing concessional rate of excise duty of 16% to ambulances for Government run hospitals was extended to all ambulances. Rehabilitation aids such as talking books, talking calculators, talking thermometers, Braillewriters, Braille computer terminals were exempted from excise duty. Excise duty exemption available to diagnostic kits used for detection of Hepatitis B was extended to diagnostic kits used for detection of all types of Hepatitis.

The excise duty was reduced from 26% to 23% on Motor Spirit. The excise duty was reduced from 11% to 8% on High Speed Diesel. The excise duty was reduced from 16% to 8% on LPG. The excise duty was reduced from 16% to 12% on Kerosene for PDS.

Newsprint in reels was exempted from excise duty.

A sunset clause was introduced in case of area based exemptions for Sikkim, Uttranchal and Himachal Pradesh so as to provide that the exemptions would be available only to those new units which are set up or existing units which are substantially expanded and commence commercial production on or before 31.03.2007.

Retail Sale Price (RSP) based assessment was extended to monochrome (black & white) television sets.

Service Tax

Credit of service tax and excise duty is being extended across goods and services. Rate of service tax was raised from 8 per cent to 10 per cent.

A new levy 'Education Cess' has been levied on services subjected to service tax. It shall be chargeable @ 2% of the service tax amount. The cess paid on inputs services shall be available as credit for payment of cess on output services.

Thirteen new services were added to the existing list of taxable services. These are: Business exhibition services, Airport services, Transport of goods by road (by a goods transport agency), Transport of goods by air, Survey and exploration of minerals, Opinion poll services, Intellectual property services other than copyrights, Forward contract service, Pandal or Shamiana service, Outdoor catering, TV or radio programme production, Construction services in respect of commercial or industrial buildings or civil structures and Travel agents (other than air, rail travel agents). By induction of these new services, the total number of services in the tax net are 71 presently.

Besides, the scopes of existing services are being expanded. Commission and installation of plant, machinery or equipment is proposed to include 'erection' thereof, and Stock brokers to include sub-brokers. Cable operator service is proposed to include 'Multi-System Operators (MSO). Business auxiliary service is proposed to include service relating to procurement of inputs, production of goods or provision of services on behalf of clients. Financial services are being expanded and Tour operator services are proposed to include such package tour operators who organize tours involving any mode of transport.

Simplification of Central Excise Procedures

Warehousing facility to specified petroleum products for removal from the factory of production to a warehouse or from one warehouse to another warehouse without payment of duty has been withdrawn w.e.f. 06.09.2004.

The setting up of export warehouses for petroleum products without any restriction on class of exporters and place of warehouse has been permitted.

The simplified return filed by the assessees was amended to provide for credit of service tax since cross utilization of goods and services has been allowed vide CENVAT Credit Rules, 2004.

Manufacturer exporters exporting excisable goods under bond have been allowed to furnish a general bond without surety or security in lieu of bond.

Education Cess levied vide Section 91 read with Section 93 of the Finance Act, 2004 has been made rebatable and also exporters are not required to pay this duty when exporting goods under bond.

Refunds of less than Rs.500/- have been allowed to be refunded to His Majesty's Government of Nepal when exporters are exporting goods to Nepal.

Manufacturers of certain commodities who had paid duty of more than Rs.1 crore through PLA during the preceding financial year have been required to file Annual Financial Information Statement so that piecemeal queries to these assessees can be avoided.

Facility of electronic filing of Central Excise Returns has been provided to all manufacturers, registered dealers and EOUs.

Facility of setting up export warehouses has been extended to the district of Indore in Madhya Pradesh.

The existing Central Excise Tariff Act, 1985 follows the 6-digit classification code for the commodities. In order to bring it in line with the 8-digit commodity codes adopted by the Directorate General of Foreign Trade, Directorate General of Commercial Intelligence and Statistics and the Customs Tariff Act, the Central Excise Tariff (Amendment) Bill, 2004 was introduced in the Lok Sabha in August, 2004 and it has been passed by both the Houses of Parliament and is awaiting assent of the President.

3.4 Litigation under Indirect Taxes

The Legal Cell and Judicial Cell in the Board are primarily responsible for handling matters relating to litigation arising out of Indirect Taxes namely, Customs, Excise and Service Tax. The Legal Cell is also assigned the responsibility of appointment of Special Public Prosecutors and Special Counsels to represent the Department in various courts and tribunals throughout the country.

To assist the Board and the field formations, for conducting the litigations before the Supreme Court, the Directorate of Legal Affairs had been setup w.e.f. November, 2002. The Directorate is also responsible for collection, compilation and updation of the data relating to cases agitated before the Supreme Court and in High Courts. The principal work of collection and compilation of the statistics regarding the pendency of the cases from the Chief Commissioners all over the country is also carried out by the Directorate and compiled on quarterly basis.

The number of cases pending before the Supreme Court and the High Courts as on 30.9.2004 and the revenue involved therein are as under:

	Total no. of cases	Amount *(Rs. in crore)**
Supreme Court	2,051	3,221.98
High Courts	8,564	3,561.10

* *Provisional*

The Officers of the Legal Cell and Judicial Cell along with the Commissioner, Legal Affairs initiated innovative steps during the year under the directions of the Secretary (Revenue) to identify the difficulties in conducting the litigation and to put in place an effective mechanism for better coordination with the Ministry of Law and the agencies responsible for conducting the litigation. Several meetings were held between the officials of CBEC and other concerned officers of the Law Ministry, Central Agency and the Branch Secretariats to resolve the issues

3.5 Arrears of Central Excise

Arrears of central excise as on 31.10.2004 were Rs. 11553 Crore (approx.) as compared to Rs. 12243 Crore (approx.) as on 31.12.2003. Administrative, legal and persuasive measures are continuously being taken to liquidate the arrears.

3.6 Audit-Central Excise

1. The Ministry receives on an average of 250-280 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 a 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 office of C&AG.

2. During the year 2004-05(as on 31.12.2004) concerted efforts were made to furnish ATNs on pending Audit Paras and replies on C&AG's vetted comments/further observations on Audit Paras of previous years. As on 1.4.2004 first ATN on 5 DAPs was pending. During the period 204 DAPs (under various Paras of the Audit Report for the year ending 31.3.2003) were also included in the C&AG Report thereby making of total of 209 DAPs. Ministry's ATNs in respect of 207 DAPs contained in the various Audit Paras were furnished to the Audit, which accounts for 99% disposal.

3. Further 260 DAPs for the year ending 31.3.2004 (2003-2004) were also received. Ministry's Comments on all the DAPs have been sent to C&AG, which accounts for 100% disposal.

4. During the 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, accounting for 100% disposal.

5. Apart from the above, the Ministry also furnished replies to two Advance Questionnaires to Lok Sabha Sectt. Branch.

Provisional Assessment - Central Excise:

Details of the Central Excise provisional assessment cases pending as on 31.10.2004 and the amount involved therein:

(Rs in crore)

No. of cases	Amount involved	Less then 3 months	3 to 6 months	6 to 12 months	1 to 3 years	over 3 years
366	258.65	56	68	76	113	53

3.7 Review Branch of CBEC

The Review Branch of CBEC services Member (L&J)'s office in handling of departmental appeals filed in Supreme Court against CESTAT orders, review from the point of view of filing appeals in CESTAT against orders passed by Commissioners as adjudicating authority, and also presenting the department's case before the Empowered Committee with reference to departmental disputes against PSUs. In recent times a conscious effort has been made to upgrade the quality of departmental appeals at all appellate fora. The thrust area has been to overcome volumes and concentrate on sustainability of department's cases. Of the 107 departmental appeals decided by the Supreme Court in 2004, 24 have been decided in department's favour, which is a sizeable number, considering that these are cases which had been lost by the department at the CESTAT level. Significant cases decided in favour of revenue include that of CC Kandla Vs. Essar Oil, CC Mumbai Vs BV Jewels, CCE Delhi Vs Modi Alkalis & CC Bangalore Vs. Maestro Motors Ltd.

Performance during the Year 2004

1. Departmental Appeals:

Year	Number of C.A. Proposals received	Number of Appeals filed	Number of cases where CEGAT Orders accepted
2004	761	292	458
			(11 under processing)

2. Party Appeals:

Year	No. of Appeals
2004	111

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	42	221	263	173	90

(b) Progress In COD Meetings:

Year	No. of Meetings	PSU Cases	Departmental Cases	PSU Cases Allowed	Departmental Cases Allowed
2004	24	287	113	173	24

4. *Review of Commissioner's Orders*:

Opening Balance	Receipt	Total Proposals Received	Reviewed	Not Found Fit For Review	Closing Balance
103	357	460	241	121	98

The Review and Judicial Cell of CBEC services Member (L&J)'s office in exercising review functions of Central Board of Excise and Customs. There are three streams of work being undertaken, namely:

* Review of orders passed by the Appellate Tribunal (CESTAT) for appeal before the Hon'ble Supreme Court. The proposal to review the impugned order are sent to the CBEC by the jurisdictional Commissioners of Customs and Central Excise and the merits of appealing to the Apex court in the face of policy and relied upon judgments as well as facts of the case are examined and accorded approval by the Member (L&J). Co-ordination with field formations is also maintained with reference to appeals filed by the party against CESTAT orders.

* Review of Orders-in-Original passed by Commissioners as adjudicating authority, wherein, the Board after examining review proposals sent by Zonal Chief

Commissioners passes review orders under Section 35E of the Central Excise Act or Section 129D of the Customs Act 1962 for appeal against the impugned order before the Hon'ble CESTAT.

* Review of proposals sent by jurisdictional Commissioners of Customs and Central Excise for appeal in the Tribunal and the Supreme Court against Public Sector Units. In this regard the Review Branch presents the case of the department to the Committee on Disputes set up by the Government as a consequence of Supreme Court's directions in the ONGC case to resolve disputes involving the two wings of government outside the Court as far as possible.

1. *Departmental Appeals*:

Year	No. of C.A. proposals received	No. of Appeals filed	No. of cases where CEGAT (Now CESTAT) order accepted
2002	516	383	133
2003	565	248	298

2. Party Appeals:

Sr. No	Year	No. of Appeals
1.	2002	140
2.	2003	123

3. Departmental Disputes With PSU's

(a) *Processing of COD Proposals*:

Year	Opening Balance	No. of Proposals Received	Total	No. of Proposals Disposed of	Closing Balance
2002	-	132	132	75	57
2003	57	64	121	79	42

(b) *Progress in COD Meetings*:

Year	No. of Meetings	PSU Cases	Departmental Cases	PSU Cases Allowed	Departmental Cases Allowed
2002	19	284	33	222	16
2003	22	240	85	130	14

4. *Review of Commissioner's Orders*

Year	Opening balance	Receipt	Total	Reviewed	Not found fit for Review	Closing balance
2002	56	443	499	318	112	69
2003	69	452	521	353	65	103

3.8 Customs

1. Arrears of Customs Revenue:

Arrears of Customs Revenue (Confirmed Demands) as on 31.12.2004 is Rs. 2322.27 crore. The arrears of revenue are kept under constant watch and all efforts are made to ensure their timely recovery.

2. Adhoc Exemption Orders:

During the period 1.04.2004 to 31.12.2004, twenty three ad-hoc exemption orders were issued. The total revenue foregone on this account was Rs. 19.46 Crores (approx.)

3. Notifications

The existing Customs and Excise notifications have been amended so that these are aligned with the provisions of the new Foreign Trade Policy 2004-09 which came into effect from 1.9.2004 to give boost to exports and to simplify the procedures for import, manufacture and export of goods. Some of important changes made in that direction are as under:

(i) ***Chapter XA of the Customs Act, 1962,***

This Chapter provides that any goods admitted into the Special Economic Zones (SEZs) shall be deemed as being outside the Customs territory of India in so far as duties of customs are concerned and has been operationalized with effect from 11.5.2004. With the operationalization of Chapter XA of the Customs Act, 1962, all goods supplied to SEZ from the domestic tariff area are now considered as physical export.

(ii) ***CENVAT Credit Facility***

CENVAT credit facility has been extended to EOU/EHTP/STP Schemes with effect from 6.9.2004 by way of amendment to rule 17 of the Central Excise Rules, 2002, vide notification No. 18/2004-CE (NT), dated 6.9.2004. Now EOUs and units in EHTP/STP can avail of CENVAT credit of goods and services procured in connection with production of export goods.

(iii) ***EOUs and Units in EHTP and STP***

All the EOUs and units in EHTP and STP which are in existence for the last three years with unblemished track records and having a turn over of Rs 5 Crores and above, have been exempted from furnishing of security along with bond vide Circular No 54/2004-Cus. dated 13.10.2004.

(iv) In case of EOUs in the textile sector, the units have been allowed to dispose off left over material/fabric upto 2% of CIF value of import or quantity of import whichever is higher on payment of duty on transaction value.

(v) It was clarified vide Circular No. 40/2004-Cus. Dated 4th June, 2004 that concessional rate of duty on import of gold and silver under Notification No. 62/2004-Cus., dated 12.5.2004 would be available to imports by all categories of importers.

(vi) It was clarified vide Circular No. 41/2004-Cus dated 7th June, 2004 that there is no exemption from the levy of National Calamity Contingent duty on the items attracting the said duty.

(vii) Notification No. 62/2004-Customs dated 12th May 2004, has been issued superceding Notification No 80/97-Cus dated 21st October 1997 to allow concessional rate of duty on gold and silver to all categories of Importers (other than through post, courier or baggage).

(xiii) Circular No. 62/2004-Customs dated 29.10.2004 has been issued enlarging the scope of consideration of guidelines for considering cases for waiver of interest of Customs duty in respect of the warehoused goods.

(xx) During the period under review, Bhadoli in U.P. and Desur in Karnataka have been notified under section 7 of the Customs Act, 1962, for unloading imported and loading of export goods. ICD at Rudrapur has been closed.

(x) Circular No.30/2004-Cus. dated 16.04.2004 and Circular No. 34/2004-Cus. dated 13.05.2004 were issued providing detailed guidelines for filing for Import General manifest before the arrival of the vessel or aircraft by persons specified under Section 30 of the Customs Act, 1962.

(xi) Circular 50/2004 dated 1.10.2004, has been issued regarding synchronization of holidays by customs with ports and airports to ensure smooth flow of trade.

(xii) Circular 56/2004 dated 18.10.2004, as amended has been issued prescribing revised clearance procedures for all forms of imported metal scrap, whether shredded, un-shredded, compressed or in loose form.

3.9 Anti-smuggling

Performance and Achievement of Directorate of Revenue Intelligence:

(a) Performance of DRI during 2003-2004 and 2004-2005 (up to December, 2004) is as under:-

From 1st April, 2003 to 31st March,2004:-

During this period, 356 Seizure cases involving contraband goods worth 260.88 crores have been booked. As regards Commercial Fraud cases during this period, 435 Commercial Fraud cases involving estimated duty evasion of Rs. 382 crores were detected. Show Cause Notices have been issued in 452 Commercial Fraud cases demanding duty amounting to Rs.582.92 crores and in 156 smuggling cases involving Rs.33.12 crores worth of goods.

From 1st April, 2004 To 31st December,2004:-

During this period, 217 Seizure cases involving contraband goods worth Rs.251.72 crores have been booked. As regards Commercial Fraud cases during this period, 322 Commercial Fraud cases involving estimated duty evasion of Rs.338.36 crores were detected. Show Cause Notices have been issued in 347 Commercial Fraud cases demanding duty amounting to Rs.692.34 crores and in 121 smuggling cases involving Rs.57.61 crores worth of goods.

Directorate of Logistics:

A) This Direcotorate has the following four Divisions under it: -

I. Anti-Smuggling Division
II. Communications Division
III. Marine Division and
IV. Welfare Fund Division

Functions:

I. **Anti-Smuggling Division**

a) Assessment of the needs of Anti-Smuggling Equipment (including arms & ammunitions) of field formations, formulation of proposals for their purchase, obtaining of sanctions from the Ministry and acquisition, installation / distribution of the same.
b) Acquisition and deployment of Sniffer dogs.
c) Monitoring of the stocks of seized, confiscated and ripe for disposal goods with the Commissionerates.
d) Maintenance of statistical data bank relating to rewards, stocks and disposal of goods and preparation of monthly Performance Indicators bulletin.
e) Inspection and stock taking of the anti-smuggling equipment and stocks of seized, confiscated and ripe for disposal goods in the anti-smuggling wings of the Commissionerates / Custom Houses.
f) Loaning of seized/confiscated arms to departmental officers.

II. **Communication Division**

a) To plan and formulate wireless communication proposals for Customs Preventive Commissionerates and obtaining sanctions from the Ministry for acquisition of wireless equipment.
b) Distribution of wireless equipment amongst the Commissionerates and monitoring wireless traffic passing over the wireless networks.
c) Preparation of consolidated monthly wireless traffic report on the basis of Commissionerates monthly traffic reports.
d) Monitoring the operational status of wireless networks.
e) Providing support for the maintenance and repair of wireless equipments in the Commissionerates and Inspection thereof, and training of telecommunication staff.
f) Coordination with regional command Security Committees under Ministry of Defence in the matters relating to breaches of communication security.
g) Co-ordination with the Ministry of Communication for obtaining new licenses and renewal of existing licenses for the operation of wireless stations in the Commissionerates.
h) Planning and management of Group ‘A’, ‘B’ & ‘C’ personnel. Training of telecommunication staff and Cadre control of Group B Supdts.

III. **Marine Division**

a) Planning, acquisition and allocation of new vessels in lieu of vessels condemned or likely to be condemned in future.
b) Examining proposals for appropriation/condemnation of vessels received from maritime Commissionerates and extending technical support.
c) Procurement and supply of technical and general sea stores through Central Stores Yard, Mumbai
d) Overall supervision and control over the four workshops for repair of the vessels.
e) Maintaining statistical data pertaining to crafts and crew.
f) Recruitment of trained and disciplined technical personnel for operating vessels, workshops and Central Stores Yard.

IV. **Welfare Fund Division**

This Directorate administers the three Welfare Funds namely, Customs & Central Excise Welfare Fund, Performance Award Fund and Special Equipment Fund for purchase of Anti smuggling Equipment.

B) Performance During 2004 – 2005 (upto 31.12.2004)

I. **Anti-Smuggling Division**

a) Vehicles

A total amount of Rs. 1,10,92,448/- was released from the Special Equipment Fund towards purchase of 27 vehicles.

b) X-Ray Baggage Inspection Systems (XBIS)

Presently 135 Nos. of X-Ray Baggage Machines are functioning at various locations in the country. All the machines are under Centralised Comprehensive Annual Maintenance Contract (CCAMC) with the supplier M/s ECIL Rapiscan.

A global tender has been floated in January 2004 for procurement of 58 X-Ray Baggage machines and the bids received were opened on 28.04.2004. The tender bids are under the examination of Technical Evaluation Committee.

A proposal for procurement of 24 additional X-ray Baggage Machines was submitted to the Ministry for approval on 28.12.2004.

Review of working of X-ray machines was undertaken by this Directorate. Six XBISs were identified for diversion as these were not being put to adequate use at the place of current installation. Ministry’s approval for diversion of these XBISs has been received and the needy Commissionerates were requested to make all arrangement for installation of machines after issuing the diversion orders. As Calicut Central Excise & Customs Commissionerate has made the arrangements, this Directorate has already ordered for diversion of two machines i.e. one from CFS JNPT, Nhava Sheva to UB Centre, Karipur and another from UB Centre, Karipur to Calicut Airport.

c) Narcotic Drugs & Explosives Detectors

In pursuance of Ministry’s approval for procurement of 03 Explosives & Narcotics Detectors for deployment at Amritsar Airport, LCS Attari Rail & LCS Attari Road under the charge of the Commissioner of Customs, Amritsar, the Technical Evaluation Committee evaluated the comparative performance of the systems presented before them. As the Tender Approval Committee did not approve the tender, the matter was placed before the Board for discussion in the full Board Meeting for seeking approval of Secretary (R). In the Board meeting held on 11.05.2004 the matter was discussed and it was decided that the tender should be floated once again under two bids system. This Directorate cancelled the tender on 18.05.2004. Requirements of the field formations is being ascertained afresh and a new tender is likely to be floated soon.

d) Door Frame Metal Detectors

The Ministry vide order dated 20.01.2004 sanctioned 10 Door Frame Metal Detectors (DFMD) for deployment at different Customs & Central Excise formations. This Directorate vide letter dated 29.01.2004 requested three firms to intimate their willingness for supply of these DFMDs as per DGS&D approved rates & specifications. M/s S.D.S. Electronics Pvt. Ltd., Haryana has submitted the Bank Guarantee for supply of 10 Nos. of Door Frame Metal Detectors. This Directorate is in the process of placing order for supply and installation of these Door Frame Metal Detectors.

e) Hand-held Search Lights

46 Hand Held Search Lights were procured on 05.08.2003 in pursuance of Ministry's sanction dated 26.03.2001. 41 Hand Held Search Lights have so far been distributed to the field formations. The remaining 05 Nos. of Search Lights were allotted to J&K, CE&C Commissionerate vide letter dated 06.12.2004.

f) Hand -held Metal Detectors

52 Hand Held Metal Detectors were procured on 27.08.2003 in pursuance of Ministry's sanction dated 26.03.2001. 50 Nos. of Hand Held Metal Detectors have so far been distributed to the field formations. The remaining 02 Nos. of Metal Detectors were allotted to J&K, CE&C Commissionerate vide letter dated 06.12.2004.

g) Truck / Container Scanning System

The Committee on Non-Plan Expenditure (CNE) in its meeting held on Ist July 2003 approved the proposal for purchase of two scanners one mobile and the other re-locatable by M/s ECIL from the identified vendor M/s Rapiscan Security Products, U.S.A. on single tender basis for installation at JNPT, Nhava Sheva as a pilot project.

The Mobile Scanner System has been commissioned at Jawaharlal Nehru Port, Nhava Sheva and is operational w.e.f. 29.3.2004.

The Re-locatable system has also arrived and kept in the custody of M/s ECIL and CWC. M/s CWC handed over the site in the last week of November 2004 for starting installation work by M/s ECIL.

After the success of the Pilot Project, action will be initiated to extend the project to the other Ports.

h) Sniffer Dogs

Directorate of Logistics is preparing a comprehensive proposal for having squads of Sniffer dogs for anti smuggling work at the international Airports and Foreign Post Offices covering interalia, the cost of procuring Sniffer Dogs, the training needs of dogs and Dog Handlers, issue of Special Pay admissible to concerned staff and need for special vehicles for transportation of the Sniffer Dogs.

i) Firearms

The Chief Commissionerates have recently submitted their requirement of fire-arms after taking into account the existing stocks in respect of all the Commissionerates under their charge. The report is under compilation for taking further action for procurement etc.

II. Communication Division

With a view to rationalising the communication system of the Department and keeping in view the latest developments in the communication field, such as availability of Fax / Internet / Mobile Phones etc. the requirement of equipment and manpower has been reviewed. The present sanction of equipment is 317 HF Sets, 1220 VHF 25 Watts Sets, 1158 VHF 2/5 Watts Sets and 50 Repeaters which are presently operating over 500 Static 1500 mobile / manpack wireless stations in 26 Commissionerates, Customs Houses and Central Bureau of Narcotics at 340 locations. The manpower consists of 31 Group 'A', 53 Group 'B' and 854 Group 'C' posts. The cadre re-structuring proposal with a view to bringing maximum efficiency with optimum utilisation of the equipment available is under active consideration of the Ministry.

III. Marine Division

a) There are 106 vessels with the department which includes 17 CPCs, 10 CACs, 12 CPLs and 67 CPTs. These vessels have been allotted to Maritime Commissionerates to undertake anti-smuggling operations.

b) The proposal for acquisition of 109 vessels in lieu of the vessels already condemned or proposed to be condemned upto 2005-06 at an estimated cost of Rs.153.85 crores was approved by Cabinet Committee for Economic Affairs (CCEA) on 15.12.2004.

c) The draft Global Tender for acquisition of 109 vessels is being vetted by Ministry of Law.

d) The Recruitment Rules for Group A & B cadre were notified in the Gazette of India vide GSR No. 141(E) and 142(E) dated 25.02.2004 after a period of 30 years i.e. since the creation of Customs Marine Department.

e) The cadre restructuring proposal in respect of Marine Wing for all cadres is under the final stage of approval with the Ministry of Finance (Expenditure).

f) The proposal for diversion of one post of Additional Director (Marine) and two posts of Assistant Director (Marine) from Customs Marine Headquarters, Mumbai was approved by Ministry of Finance on 05.02.2004. Accordingly, Cdr. A.R.C. Varma from Indian Navy joined on deputation as Additional Director (Marine) at New Delhi.

g) The advertisement for recruitment of Skippers, Engineers, Skipper Mates and Engineer Mates to man the 109 number state of art technology vessels being acquired by the Customs Marine Department was published in the leading newspapers of India. The Directorate of Logistics is in the process of scrutinising the applications received and the interview will be conducted from amongst the technically qualified and experienced staff.

h) Indian Navy conveyed its consent to provide training to the newly appointed Marine staff free of cost. The training program will be conducted in the month of April / May 2005.

IV. Welfare Fund Division

(i) Welfare Fund

a) 123 cases involving Rs. 34,14,726/- were sanctioned for giving medical assistance to officers / staff and their families in respect of expenses not re-imbursed under the CS(MA) Rules.

b) 12 cases involving Rs. 11,50,000/- were sanctioned as ex-gratia assistance to the families of officers / staff who died while in service.

(ii) Performance Award Fund

a) One time cash award amounting to Rs. 15 lakhs has been given to the 300 wards of the Departmental officers / staff for their performance in their Class X & XII board exam in 2004.

b) An amount of Rs. 16,200/- has been given to the wards of the Group 'D' staff of the Department for continuation of the studies after passing their class Xth and XIIth Board exam.

c) Cash awards amounting to Rs. 5,20,000/- have been given to the eminent sports persons of the Department, which includes an amount of Rs. 5,00,000/- given to Ms Anju B. George for being awarded Padamshree. Financial assistance of Rs. 7,50,000/- has also been given to CRSB for organizing annual Sports Meet.

d) An amount of Rs. 39,84,100/- has been given to the various field formations for setting up Guest Houses, Crèche, Canteen and Recreation club etc.

(iii) Modifications / New Schemes

a) In the scheme for 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 the number of awards has been increased from 150 to 300 and amount of award has been increased from Rs. 2,500/- to Rs. 5,000/- each.

b) Grant of scholarship to the wards of Group 'D' staff for continuation of their studies after passing their class Xth and XIIth Board exam has been scrapped and substituted by one time grant of cash award of Rs. 2,500/- to children who secure 75% or above marks in their class Xth & XIIth but have not qualified for the scholarship at (a) above.

c) Grant of ex-gratia cash amount to the eminent sports persons of the Department participating in National and International Sports Meets and bringing laurel to the Department has also been revised upwards.

d) A new scheme of grant of 200 numbers of scholarship each equivalent to Rs. 18,000/- or 50% of the Tuition fees paid per year (whichever is less) to the children of Group 'B', 'C' & 'D' officers and staff of the Department to pursue higher education on selection on the basis of All India Entrance Test has been introduced from the Academic year 2003-2004.

Statistical information regarding Seizure of Important Contraband Goods and Sector-wise Seizure with Value and post-seizure

(i) Seizure of Important Contraband Goods (All India basis) during the year 2003-2004 and 2004-2005 (upto 31st December, 2004):

(Rs. in crores)

Commodities	**2003-2004**	**2004-2005 (Upto Dec.2004)***
Gold	2.48	1.08
Syn.Fabrics/Yarn/Silk Yarn etc.	32.56	15.97
Electronic Goods	54.21	20.62
Indian Currency	1.98	7.23
Foreign Currency	11.78	10.03
Narcotic Drugs	33.70	65.00

* *provisional*

(ii) The value of the Contraband goods seized (All India basis) during the year 2003-2004 and 2004-2005 (up to December, 04) :

(Rs. in crores)

Commodities	**2003-2004**	**2004-2005 (Upto Dec.2004)***
West Coast	212	93
East Coast	103	82
Indo-Sri-Lanka	-	-
Indo-Nepal	50	35
Indo-Pak	3	-
Indo-Bangladesh	31	23
Indo-Myanmar	20	17
Others.	309	331
Total	728	581

***** *provisional*

(iii) Post seizure work handled (All India basis) during the year 2003-04 and 2004-05 (up to December, 2004) :-

(Rs. in crores)

Commodities	**2003-2004**	**2004-2005 (Upto Dec.2004)***
No. of Seizure	47097	30134
Value of Goods Seized	728.18	580.51
No. of Persons Arrested	610	311
No. of Persons Convicted	55	31
No of Persons Detained under COFEPOSA/NDPS	120	73
Evasion of Customs duty etected **	1093.05	823.66

* *provisional*

*** Based on SCN issued.*

3.10 Printing Publications and Publicity

Major Achievements During 2004-2005

The Directorate of Publicity & Public Relations (DPPR) publicized the Service Tax Registration Camps all over the country in Print media as well as TV Channels. The vigorous publicity resulted in registration of over 1.43 Lakh new services providers. The Directorate also printed and published Customs and Central Excise Tariffs within 3 days of presentation of Finance Bill. As a result, substantial amount of expenditure was saved otherwise the field formations would have bought tariffs of private publishers. DPPR also printed and published various manuals, notifications, circulars etc. so that the departmental officers were updated about the latest changes.

Publicity

Under directions of the Hon'ble Finance Minister, DPPR launched a massive drive for registration of service providers in un-organised sector. Advertisements setting out important Service Tax provisions and exhorting service providers to come forward for registration were released in print media and TV channels. Advertisements about Registration Camps giving details like dates, venue and helpline numbers of different Commissionerates were released in the jurisdictional areas through English, Hindi and local newspapers. Publicity material (posters and handbills, etc.) pertaining to registration camps were prepared separately for all the Commissionerates spread all over the country for display and distribution. The IT initiaves taken by the Customs & Central Excise Department like e-filing of Service Tax and Central Excise returns, filing of Customs declarations through ICEGATE, assessment of import and export documents through Electronic Data Interchange (EDI), direct crediting of duty drawback in the accounts of the exporters etc. were publicised so that trade can take full benefit of these facilities. In order to augment the tax collection, the facilities like Settlement Commission, waiver of penalty, fine and prosecution, if duty is paid before issue of notice were publicised.

Publications

After presentation of the Union Budget on 7.7.04, Budget Bulletins were printed overnight and distributed to the field formations on 8.7.04. Central Excise and Customs tariffs were updated and printed within 3 days and sent through special messengers to field formations to ensure uninterrupted tax work. Notifications/Circulars relating to Central Excise, Customs and Service Tax were published and sent to field formations and subscribers and also to trade and public. Monthly publications e.g. CBEC Digest, ICE Trade Digest, ICE Law Reporter containing notifications, circulars and important decisions of CESTAT/ Settlement Commission were published and sent to field formations. Updated editions of Guide for Travellers and Hand Book were printed and sent to field formations. All manuals sent to this Directorate from CBEC and various Directorates were also printed.

Public Grievances Redressal Mechanism & Citizen's Charter

The Commissioner, DPPR has also been nominated as the nodal officer for the purpose of monitoring of Public Grievances Redressal and onward transmission of the same to the Ministry of Personnel, Public Grievances and Pensions. Accordingly, the Directorate has been circulating various instructions received from the Ministry of Personnel, Public Grievances and Pensions to the field formations under CBEC. The reports received from the field formations are compiled and sent to the Ministry. The grievances sent by the public are attended to on priority by calling for the reports from the concerned Commissionerates and suitably informing the aggrieved persons.

3.11 Activities of the Directorate General of Inspection (Customs & Central Excise)

Directorate General of Inspection mainly consists of five Regional Units (NRU/CRU/WRU/SRU/ERU), Customs Wing (Hqrs.), C.Excise Wing (Hqrs.), Administrative Wing & Nepal/ Bhutan Refund Wing. Under the immediate supervisory control of the Directorate General (Inspection), the following functions, as approved by CBEC, are performed:

a) To study the working of the Customs, Central Excise and Narcotics Departmental machinery throughout the country.
b) To suggest measures for improvement of its efficiency and rectification of important defects in it through inspection and by laying down procedures for smooth functioning.
c) To carry out inspection to determine whether the working of the field formations are as per Customs and Central Excise procedures, and to make recommendations with respect to the procedural flaws, if any noticed.
d) To suggest measures for improvement in functioning of the field formations.

2. The Directorate compiles Monthly Technical Reports (MTRs) received from 93 Central Excise Commissionerates and 35 Customs Commissionerates. The Directorate also handles the work pertaining to refund of Central Excise duty to Nepal in terms of Notification No.40/2001-CE(NT) dated 26.6.2001. The refund of Central Excise duty to Royal Government of Bhutan is also processed by the Directorate. The exports to Bhutan under Notification No.45/2001-CE(NT) dated 26.6.2001 with regard to Government of India aided Projects are also monitored by the Directorate as prescribed under the said Notification.

On Customs Side

- Monthly Technical reports to the Board in respect of different items of work on Customs side on All-India basis.
- Quarterly Report on ATA Carnet.

Inspections

3. In addition to the above, Inspections of the Central Excise as well as Cuistoms Commissionerates are periodically undertaken by Inspecting teams of officers from the Headquarters as well as the Regional Units and specific studies have also been conducted on the recommendation by various experts groups.

Cadre Controlling Authority

4. The Directorate General of Inspection has been made the cadre controlling authority for the following Directorates/ Offices:

1. Directorate General of Vigilance
2. Directorate General of Audit
3. Directorate of Personnel and Management
4. CESTAT
5. Directorate General of Safeguard
6. Directorate General of Export Promotion
7. Directorate General of Housing & Welfare
8. Directorate of Legal Affairs.

During the year 2004-05 (upto 31.12.2004), the Hqrs. Office conducted the inspections in 18 Central Excise Commsisionerates and 20 Customs formations.

3.12 Nepal Rebate Section

General

The Nepal Rebate Section processes the Central Excise duty rebate claims and makes the payment to His Majesty's Govt. of Nepal (HMGN) in terms of various Notifications issued from time to time. Presently the same are being processed in terms of Notification No.40/2001-CE(NT) dated 26.6.2001 as amended. Apart from processing of the DRP invoices, various other related matters are also dealt in the section, e.g. recapitulation statement for each Bill is prepared and forwarded to all the C.Ex. Commissionerates of the country with a copy to HMGN.

Refund Sanctioned during 2004-2005

The number of invoices processed and the amount of refund disbursed to HMGN during the period April 2004-December 2004 are as under:-

Bill No.	Amount in Indian Rs.	Number of Invoices
April 1/2004-05	17,09,15,569	5229
May 2/2004-05	17,08,26,822	5502
June 3/2004-05	6,64,79,509	4056
July 4/2004-05	7,74,31,129	4586
Aug. 5/2004-05	6,04,34,713	5011
Sept. 6/2004-05	13,18,36,612	3431
Oct. 7/2004-05	15,16,40,818	4038
Nov. 8/2004-05	10,53,00,800	3088
Dec. 9/2004-05	2,30,50,627	3598
TOTAL	**95,79,16,599**	**38539**

Examination Conducted during 2004-2005(upto Dec.2004) by DGICCE

1) Appraisers/Examiners/Prev.officers for confirmation in their respective grades held in June'2004.

2) Custom House Agents, Licensing Regulation-1984, Regulation '9' examination. held in June'04.

3) Central Excise Departmental Examination of the Inspectors held in July ' 2004.

4) Stenographer Gr.III for promotion to higher supervisory Ministerial Cadre held in September'2004.

5) Departmental Examination for the Superintendent Group'B' Experts. held in October'2004.

4. CENTRAL BOARD OF DIRECT TAXES

4.1 Organisation and functions

4.1.1 The Central Board of Direct Taxes is the apex body in the Income-tax set up. It employs a workforce of 59,729 officers and staff, of which approximately 16.89% are Gazetted officers in Group 'A' and 'B', and the remaining are non-Gazetted employees in Group 'C' and 'D'.

4.1.2 The Board has the following attached Offices in Delhi:

(i) Directorate of Income Tax (RSP&PR)
(ii) Directorate of Income Tax (Recovery)
(iii) Directorate of Income Tax (Audit)
(iv) Directorate of Income Tax (Income Tax)
(v) Directorate of Income Tax (O&MS)
(vi) Directorate of Income Tax (Systems)
(vii) Directorate of Income Tax (Investigation)
(viii) Directorate of Income Tax (Vigilance)
(ix) Directorate of Income Tax (Exemption)
(x) Directorate of Income Tax (Administration).

4.1.3 The various Chief Commissioners of Income Tax, stationed all over the country, are in charge of assessment and collection of direct taxes at regional levels. Besides, the Director Generals of Income-tax (Investigation) are overall in-charge of the investigation machinery on a regional basis, with the aim to curb tax evasion and unearth unaccounted money. The Chief Commissioners of Income Tax / Director Generals of Income Tax are assisted by Commissioners of Income Tax / Directors of Income Tax in their jurisdictions. There is also first appellate machinery comprising the Commissioners of Income Tax (Appeals), to perform the work of disposal of appeals against the orders of the assessing officers.

4.1.4 A comprehensive computerization of the Income Tax Department and induction of informational technology is being carried out in a big way. The expected benefits from this exercise are Tax Payers Friendly Regime, much wider Tax-base, better supervision and, above all, garnering more revenue for the Government.

4.1.5 Grade-wise Sanctioned Strength in Central Board of Direct Taxes **(as on 1st January, 2005)**

Group	Sanctioned Strength
'A'	4136
'B'	5957
'C'	39265
'D'	10371

4.2 Conference

The 20th Conference of Chief Commissioners (Cadre Controlling) and Directors General of Income Tax was held at New Delhi on 26th & 27th July, 2004. The Union Finance Minister, in his address, *inter-alia*, emphasized the need to increase the Tax – GDP ratio and to increase the tax base of higher end of the income bracket and also to wipe out the revenue deficit in view of Fiscal Responsibility and Budget Management Act.

4.3 Direct Taxes Advisory Committees

With a view to encourage mutual understanding between the taxpayers and the 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 59 Regional Direct Taxes Advisory Committees (RDTACs) at important stations of all Chief commissioners/some Commissioners of Income Tax. Representative 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), Chairperson, 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, who are taxpayers.

4.4 Revenue Collection

Statements showing the Budget Estimates and actual collection of Direct Taxes during Financial years 2002-03, 2003-04 and 2004-05 together with the arrear demand position in respect of Corporation Tax and Income Tax up to Oct.2004 are given as under :-

I. Statement Showing the Budget Estimate and Actual Collection of Direct Taxes During the Financial Years 2002-03, 2003-04 & 2004-05

(Rs.in crore)

Taxes	2002-2003		2003-2004		2004-2005	
	Budget Estimates	Collection	Budget Estimates	Collection	Budget Estimates	Collection (Provisional) (upto Dec. 2004)
Corporation tax	48616	46172	51499	63562	88436	46592*
Income tax	42524	36866	44070	41386	50929	34172*
Other	445	50	145	140	145	443
Total	**91585**	**83088**	**95714**	**105088**	**139510**	**81207**

(Rs. In Crore) *(Source: IT-B)*

* "CT" collections to the extent of Rs.3291 Crores have been included under the head "IT". The collection figures for January, 2005 will be accordingly amended.

The total Collection of Corporation Tax and Income Tax up to Dec.2004 is Rs. 80764 Crores as compared to the collection of Rs. 64270 Crores in the corresponding period of last year. The collection of Corporation Tax up to Dec. 2004 has registered a higher growth of 30.88% and the collection of Income Tax up to December 2004 has also registered a growth of 18% over the Collections for the corresponding period of Last year. The overall growth of (CT& IT) is 25.66%

II. Statement Showing Arrear Demand Position of Corporation Tax and Income Tax As On 31.3.2004 and Upto October 2004.

(Rs. In Crores)

	Financial Year 2003-04	Financial Year 2004-05 (Up to October 2004)
A. Total Outstanding Demand	**87885**	**83933**
B. Reason-wise Analysis		
1. Amount not fallen due and amount claimed as paid but verification is pending.	12650	2038
2. Amount difficult to recover	52126	67894
3. Amounts stayed by I.T. Authorities including installment granted.	5252	5729
C. Net Collectible Demand (A-B)	17858	8272

(Source: IT-B)

4.5 Measures To Combat Tax Evasion

The Government is continuously striving to check tax evasion and accumulation of unaccounted wealth. In pursuance of this 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. In suitable cases, prosecution is also launched.

For carrying out the 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.) stationed at different parts of the country. These officers are assisted by a number of Additional Directors of(Inv.) / Joint Directors of Income Tax (inv.). . The Assistant /Deputy Directors of Income Tax (Inv.) are working under the supervision of Addl. DIT/Joint DIT (Inv.). There are three Chief Commissioners of Income Tax (Central), two stationed at Mumbai and one at Delhi. Their functions include supervision of finalization of search assessments within stipulated time limit. There are also Central Information Branches headed by Commissioner of Income Tax which collect the Information from different agencies and pass the same to different assessing officers so that tax-base may be further widened.

The results achieved in searches since the last three Financial Years are as under:

Financial Year	No. of Warrants Executed	Total Assets Seized (Rs. in crores)
2002-2003	4902	515.86
2003-2004	2492	231.37
2004-2005* (up to 31.12.2004)	1604*	149.29*

** Figures are provisional*

Prosecution for 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 years are as below:

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* (up to 31.12.04)	83*	333*	-	255*	78*

(Figures are provisional)*

4.6 Widening of the Tax Base

Statistics showing the number of assessees over the last six years are as under:

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

(Source: OT/WT)

**Figures revised due to reclassification.*

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 (up to June,2004)	83.33*	23.09

** The last date for filing of Returns was extended from 31.07.2004 to 31.10.2004. Hence, the number of returns received upto June, 2004 is low.*

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 (up to June,2004)	207059	80895

The details of refunds arising out of appellate and revisionary orders in the last few years are as follows:-

Financial Year	Number of claims	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 (up to June,2004)	11665	7882

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 application received and disposed of by the Central Board of Direct Taxes during the last few years are given as under:-

Financial year	Number of applications received	Disposal (including cases brought forward)
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 (upto December,2004)	138	33

4.9 Administration and interpretation of Specified Sections of the Income Tax Act, 1961

1. Notification of Charitable and other Institutions/Funds/ Organisations: 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 150 notifications/orders were issued u/s 10(23C)(iv)/(v)/(vi)/(via) of the IT Act, 1961.

2. Promotion of Sports: During the period eight notifications issued u/s 10(23) of the IT Act, 1961.

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 the restrictions, as per Sec. 10(15A) of the IT Act, 1961. During the period seventeen approvals were given for obtaining aircraft/engine on lease.

4. Investment on Infrastructure facility: Under section 88 (2) (xvi), of the IT Act, 1961 the Board accords approval in respect of initial issues of share capital meant for developing maintaining and operating infrastructure facilities [as defined in Sec. 88(2)(xvi) of the IT Act, 1961]. Three such cases were approved during the period.

5. 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. During the period eight awards were exempted.

6. Deduction of interest on Government securities/ dividends etc: 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. In certain cases; and Section 10(15)(iv)(h) deals with exemptions on interest on certain securities (tax free). Under these Sections six notifications were issued.

7. Opening of new Income Tax Offices: During the period, the proposal relating to opening of new Income Tax Offices have been finalized and necessary administrative approvals have been issued in five cases.

8. Notification of Jurisdiction of CCsIT/CsIT u/s 120(1)/(2) of the IT Act, 1961: Consequent to the restructuring of the Income Tax Department in 2001, orders were issued notifying the jurisdiction of officers at various level viz. Chief Commissioners/ Directors General/Commissioners and Directors of Income-tax. Nine notifications were issued in this regard.

4.10 Appeals

Consequent to the laying of monetary limits to decide on the desirability of filing appeals or otherwise, the number of appeals filed as on 1.4.2003 and 1.4.2004 were reduced substantially as indicated below:

Particulars	As on 31.3.2004	As on 31.3.2003
CIT (A)	82,147	1,01,223 **
ITAT*	71,814	71,303
High Courts *	23,395	22,273
Supreme Court *	4,120	4,009

* *Filed by the Department* *(Source: IT-J)*
** *Earlier figure of 1,16,255 is revised*

4.11 Legislation

The new legislative provisions relating to direct taxes for the year 2004-2005 are contained in the Finance (No. 2) Act, 2004. The important provisions of this statute are summarized below: -

Rate of Income Tax

1. Stability in tax rates has been continued with no change in the tax rates in respect of income earned in the financial year 2004-2005, assessable in the assessment year 2005-2006 for all assessees. In the case of individuals and HUFs, the income-tax exemption limit remains unchanged at Rs.50,000. For income from Rs.50,000 to Rs.60,000 the rate of taxation is 10% while for income from Rs.60,001 to Rs.1,50,000, the rate is 20%. For incomes above Rs.1,50,000, individual and HUF assessees are required to pay tax at a maximum marginal rate of 30%. In the case of firms and domestic companies, the rate of income tax remains unchanged at 35%. For foreign companies, the rate has been maintained at 40%. The tax payable will be enhanced by a surcharge at the rate of 10% of the tax payable (after allowing rebate under Chapter VIII-A) in cases of individuals, HUFs, AOPs and BOIs having total income exceeding Rs.8,50,000/-. Marginal relief has been provided to ensure that the additional amount of income tax payable, including surcharge on the excess income over Rs.8,50,000/- is limited to the amount by which the income is more than Rs.8,50,000/-. In the case of all companies, firms, co-operative societies and local authorities, the tax payable has been enhanced by a surcharge at the rate of 2.5% of the tax payable. In the case of every other artificial juridical person, the surcharge is kept at 10%.

Education Cess

1.1 In order to give proper thrust to the education sector, an additional surcharge, as Education Cess, has been levied at the rate of two per cent on the amount of tax deducted or advance tax paid, inclusive of surcharge.

Welfare Measures

1. Section 10 of the Income-tax Act, 1961, relates to incomes which do not form part of total income.

1.1 In order to provide relief to the farmers, a new clause (37) has been inserted in section 10 providing exemption on capital gains arising to a Hindu undivided family or to an individual from the transfer of agricultural land [being capital asset within the meaning of clause (14) of section 2] by way of compulsory acquisition under any law or under a transfer of such land, the consideration for which is determined or approved by the Central government or the Reserve Bank of India. Such exemption shall be available where the compensation or consideration has been received on or after 1st April, 2004, and such land, during the period of two years immediately preceding the date of transfer was being used for agricultural purposes by such Hindu undivided family or individual or a parent of his.

2. Section 88 of the Income-tax Act provides for a deduction from the tax payable on the total income of an individual or a Hindu undivided family, which is equal to a fixed percentage of sums paid or deposited in specified schemes.

2.1 The existing provisions contained in sub-clause (c) of clause (xv) of sub-section (2) of Section 88 provide for tax rebate for repayment of loans taken for purchase or construction of a residential house property, upto a limit of Rs.20,000 in one year within the overall investment ceiling of Rs.70,000. Repayment of the amount borrowed, however, has to be to the Central Government, or any State government, or any bank including a cooperative bank, or the Life Insurance Corporation, or the National Housing Bank, or any public company engaged in the business of housing finance, or from an employer who is a public company, or a public sector company, or a university, or a local authority or a cooperative society.

2.2 With a view to rationalize the provision, the sub-clause (c) of clause (xv) of sub-section (2) of section 88 has been amended so as to include within the purview of tax rebate under section 88, any sum paid on account of repayment of the amount borrowed by the assessee for the purchase or construction of a residential house property, from an authority or a board or a corporation or any other body established or constituted under a Central or State Act.

3. Under the existing provisions contained in clause (18) of section 10, the pension income received by the recipients of Param Vir Chakra, Mahavir Chakra, Vir Chakra or certain other notified gallantry awards, as well as the family pension received by specified family members of such individuals is not included in computing the total income of such individuals.

3.1 In the interest of the welfare of the armed forces personnel, a new clause (19) has been inserted to exempt the family pension received by the widow or children or nominated heirs of a member of the armed forces (including para-military forces) of the Union, killed in the course of operational duties.

4. The existing provisions of Section 80-IB provide for a deduction in respect of profits and gains from certain industrial undertakings, other than infrastructure development undertakings, engaged in the business of building, owning and operating multiplex theatres or convention centres, developing and building housing projects, or which are engaged in the integrated business of handling, storage and transportation of food grains or the production or refining of mineral oil.

4.1 With a view to increase the penetration of medical services in the rural areas, a new sub-section (11B) in the said section has been inserted so as to provide that the profits derived by an undertaking or an enterprise from the business of operating and maintaining a hospital in a rural area shall be eligible for a deduction of hundred per cent of such profits and gains for a period of five assessment years. The undertaking or enterprise shall be eligible for the deduction if such hospital is constructed during the period beginning on the 1st day of October, 2004 and ending on the 31st day of March, 2008, in accordance with the local regulations in force, and has at least one hundred beds for patients. Further, for claiming the deduction, the assessee has to file an audit report in the prescribed form and in the manner along with the return of income.

5. Under the existing provisions contained in section 80U, a deduction of fifty thousand rupees is allowed to a resident individual who is a ‘person with disability’, as defined under the Persons with Disability (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995. A deduction of seventy-five thousand rupees is allowed where such individual is a ‘person with severe disability’ suffering from eighty per cent. or more of one or more disabilities.

5.1 The above benefits under section 80U have been extended to persons suffering from autism, cerebral palsy and multiple disability, as referred to in the National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999.

6. Under the existing provisions contained in section 80DD, an assessee, who is resident in India, being an individual or Hindu undivided family, is allowed a deduction of an amount of rupees fifty thousand, if the assessee has, during the previous year, incurred any expenditure for the medical treatment, training and rehabilitation in respect of a dependant, being a ‘person with disability’, as defined under the Persons with Disability (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995. A deduction of rupees seventy-five thousand is allowed, where such dependent is a ‘person with severe disability’ suffering from eighty per cent. or more of one or more disabilities.

6.1 The above benefits under section 80DD have been extended to persons suffering from autism, cerebral palsy and multiple disability, as referred to in the National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999.

7. To provide relief to assessees belonging to the lower income group, a new section 88D has been inserted, providing for a rebate of the entire amount of the income-tax payable by an individual, resident in India whose total income does not exceed one hundred thousand rupees. Marginal relief has also been provided to ensure that the post tax income of the individuals having a pre-tax income above rupees one lakh, does not fall below rupees one lakh.

8. A New Pension Scheme inter-*alia*, applicable to new entrants to Central Government service has been approved by the Union Cabinet. As per the scheme it is mandatory for persons entering the service of the Central Government on or after 1st January, 2004, to contribute ten per cent. of salary every month towards a non-withdrawable Pension tier -I Account. A matching contribution is required to be made by the Government to the said account.

8.1 To give effect to the new pension scheme of the Central Government, a new section 80-CCD has been inserted to provide for a deduction from the total income of an individual employed by the Central Government on or after 1st January, 2004, of the amounts paid or deposited by him in the non withdraw-able Pension tier-I Account, which do not exceed ten percent of his salary in the previous year.The employee has been provided a further deduction, equal to the matching contribution made by the Central Government to the said account.

8.2 The amounts standing to the credit of the assessee in the non-withdrawable Pension Tier-I Account, for which a deduction has already been allowed to him, and accretions to such account, shall be taxed as income in the year in which such amounts are received by the assessee or his nominee on closure of the account or his opting out of the non- withdrawable Pension tier-I Account or on receipt of pension from the annuity plan purchased or taken on closure or opting out of the said account.

8.3 No rebate is allowed under section 88 in respect of amounts on which deduction has been claimed under section 80CCD.

Widening of Tax Base

1. With the growing development and rapid urbanization in the country, large areas of land and many residential buildings are being acquired by various agencies including government agencies and other local authorities from the owners who are compensated.

1.1 With a view to curb the tendency of evading taxes by not reporting the income comprised in the compensation, the Act has inserted a new section 194LA in the Income-tax Act requiring deduction of tax at the rate of ten per cent on the sum of compensation received.

1.2 It has also been provided that no deduction of tax shall be made where the immovable property is agricultural land, whether situated within municipal limits or not, and where the amount of compensation paid is less than one hundred thousand rupees.

2. Under the existing provisions of sub-section (1) of section 206C of the Income-tax Act, collection of tax is required to be made by the seller of certain specified goods from any amount payable by the buyer to the seller at the specified percentage.

2.1 The section has been amended by inserting sub-section (1C) to provide for collection of tax at the rate of two per cent by every person who grants a lease or a licence or enters into a contract or otherwise transfers any right or interest in any parking lot or toll plaza or mining to another person, other than a public sector company for the use of such parking lot or toll plaza or mining for the purposes of business. The tax shall be collected from the licensee or lessee of any such licence, contract of lease of the specified nature, at the time of debiting of the amount payable by the licencee or lessee to the account of the licencee or lessee or at the time of receipt of such amount from the said licencee or lessee in cash or by the issue of a cheque or draft or by any other mode, whichever is earlier.

3. Under the provisions of the section 285BA as inserted by the Finance Act, 2003 any assessee who enters into any financial transaction, as may be prescribed, with any other person is required to furnish an annual information return in such form and manner, as may be prescribed, in respect of such financial transactions entered into by him during any previous year.

3.1 With a view to gather information from Government agencies and other authorities who are valuable sources of information, the Finance (No.2) Act, 2004, has substituted the said section by a new section. The substituted section 285BA provides that an assessee or certain Government agencies responsible for registering or maintaining books of account or other documents containing a record of any specified financial transaction, under any law for the time being in force, shall furnish an annual information return in respect of such specified financial transaction which is registered or recorded by him on or after the 1st day of April, 2004.

3.2 Sub-section (3) of the said section defines the "specified financial transaction" to mean any transaction of purchase, sale or exchange of goods or property or right or interest in a property or transaction for rendering any service or transaction under a works contract or transaction by way of an investment made or expenditure incurred or a transaction for taking or accepting any loan or deposit as may be prescribed. Vide notification S.O. No. 1316 (E) dated 1st December, 2004, a new rule 114E has been inserted in the Income-tax Rules wherein the transactions in respect of which Annual Information Return has to be furnished, have been prescribed.

Measures To Promote Socio-Economic Growth

1. Reduction in the limit for increase in installed capacity for the purposes of additional depreciation: Under the existing provisions of clause (iia) of sub-section (1) of section 32 of the Income-tax Act, a further deduction at the rate of fifteen per cent of the actual cost of new plant and machinery acquired and installed on or after 1.4.2002 is allowed. This deduction is available to -

(i) a new industrial undertaking during any previous year in which it begins to manufacture produce any article or thing on or after 1.4.2002;

(ii) an undertaking existing before 1.4.2002, in the previous year in which it achieves 25% increase in installed capacity,

"Installed capacity" has been defined to mean the capacity of production as existing on the 31st day of March 2002.

1.1 With a view to give a thrust to investment in the manufacturing sector, the limit for increase in installed capacity has been reduced from 25% to 10%.

Measures to Plug Revenue Leakages

1. The existing provisions contained in sub-section (3) of section 194C of the Income-tax Act, inter alia, provided that no deduction of tax was required to be made at source from any sum credited or paid in pursuance of any contract, the consideration for which does not exceed twenty thousand rupees.

1.1 It was reported that composite contracts were being split up into contracts valued at less than Rs. 20,000/- each to escape the provisions of TDS.

1.2 To prevent this practice, section 194C has been amended to provide that tax will be required to be deducted at source where the amount credited or paid or likely to be credited or paid to a contractor or sub-contractor exceeds Rs. 20,000/- in a single payment or Rs.50,000/- in the aggregate during a financial year.

2. Under the existing provisions of sub-section (1) of section 71 of the Income-tax Act, loss computed in current year under one head of income is allowed to be set off against income computed under any other head. However, loss under the head "Capital gains" is not allowed to be set off against income under any other head.

2.1 In order to prevent abuse of the provisions of set-off of losses, the section 71 has been amended by way of insertion of a new sub-section (2A) to provide that an assessee shall not be entitled to set-off any loss under the head "Profits and gains of business or profession" against income under the head "Salaries".

3. Under the existing provisions of sub-clause (i) of clause (a) of section 40 of the Income-tax Act, failure to make deduction at source from payment of interest, royalty, fees for technical services or any other sum which is payable outside India, or in India to a non-resident or to a foreign company or failure to make payment to the account of the Central Government, attracts disallowance of such payments in the hands of the payer. Deduction of such sum is, however, allowed in the computation of income if tax is deducted, or after deduction, paid in any subsequent year in computing the income of that year.

3.1 With a view to rationalize the provisions of sub-clause (i), the said sub-clause has been substituted to provide that sums payable outside India or in India to a non-resident or to a foreign company on which tax is deductible under Chapter XVII-B and such tax has not been deducted or, after deduction, has not been paid during the previous year, or in the subsequent year before the expiry of the time prescribed under sub-section (1) of section 200. It has, however, been provided that where in respect of such sums, tax has been deducted in any subsequent year or, has been deducted in the previous year but paid in any subsequent year after the expiry of time prescribed under section 200(1), such sum shall be allowed as a deduction in computing the income of the year in which such tax has been paid.

3.2 Further, with a view to augment compliance of TDS provisions and also curb bogus payments to residents on account of interest, commission, brokerage etc., a new sub-clause (ia) has been inserted in section 40(a). The said clause provides that interest, commission or brokerage, fees for professional services or fees for technical services and sums payable to contractors or sub-contractors for carrying out any work (including supply of labour for carrying out any work) on which tax is deductible at source under Chapter XVII-B and such tax has not been deducted or after deduction, has not been paid during the previous year on or before the expiry of the time prescribed under sub-section (1) of section 200 in the subsequent year shall not be allowed as deduction in computing income under the head "Profits and gains of business or profession". It has also been provided that where in respect of payment of any sum, tax has been deducted in a subsequent year or has been deducted in the previous year but paid after the expiry of time prescribed under sub-section (1) of section 200, the sum of payment shall be allowed to the payer as a deduction in computing the income of the previous year in which such tax has been paid.

4. In order to curb bogus capital-building and money-laundering, a new sub-clause has been inserted in section 56 to provide that any sum received without consideration on or after the 1st day of September, 2004, by an individual or a Hindu Undivided Family from any person, shall be treated as income from other sources. A threshold limit of twenty-five thousand rupees has also been provided. If the amount so received exceeds this limit, the whole of the amount shall become taxable.

4.1 In order to avoid hardship in genuine cases, certain sums have been excluded. The sums which shall not be included in the income are : (a) the sum received (i) from any relative, or (ii) on the occasion of marriage of the individual, or (iii) under a will or by way of inheritance, or (iv) in contemplation of death of the payer. The expression 'relative' has also been defined for the purposes of this clause.

4.2 Section 2 has also been amended to include the income referred to in the new sub-clause (v) of section 56(2) in the definition of 'income'.

5. Under the existing provisions of section 278 a person can be punished for abetting or inducing any other person to evade tax. To establish a charge of abetment in the case of first person it is necessary to establish that tax has been evaded by the other person.

5.1 Finance (No.2) Act, 2004 has inserted a new section 277A providing that a person who willfully and with intent to enable any other person to evade any tax or interest or penalty chargeable or imposable under the Income-tax Act, 1961, makes or causes to be made any entry or statement which is false in any books of accounts or other document then such person shall be punished with rigorous imprisonment for a term not less that three months but which may extend to three years and with fine. Explanation to this section provides that for establishing the charge under this section, it shall not be necessary to prove that second person has actually evaded any tax, penalty or interest.

6. The existing provisions contained in sub-section (7) of section 94 provide that where a person buys or acquires any securities or unit within a period of three months prior to the record date fixed for declaration of dividend or income in respect of such security or unit, and sells or transfers the same within a period of three months after such record date, and the dividend or income on such securities or unit received or receivable is exempt, then the loss, if any arising from such purchase and sale shall be ignored to the extent such loss does not exceed the amount of such dividend or income while computing his income chargeable to tax.

6.1 It was felt that the holding period of three months prior to sale as specified in the said sub-section did not provide sufficient deterrence to tax avoidance.

6.2 The Finance (No.2) Act, 2004, has amended sub-section (7) of section 94 so as to increase the holding period in respect of units from three months to nine months after the record date.

6.3 With a view to prevent bonus stripping, Finance (No.2) Act,2004 has inserted a new sub-section (8) in section 94 so as to provide that where a person buys or acquires any units within a period of three months prior to the record date and he is allotted additional units on the basis of such units without making any payment, and thereafter he sells or transfers all or any of such units while continuing to hold all or any of the additional units within a period of nine months after such date, then, the loss, if any, arising to him on account of such purchase and sale of units shall be ignored for the purpose of computing his income chargeable to tax and the amount of loss so ignored shall be deemed to be the cost of purchase or acquisition of such additional units as are held by him on the date of such transfer or sale.

Rationalisation and Simplification Measures

1. Under the existing provisions of sub-section (2) of section 115R, any amount of income distributed by the specified company or a mutual fund to its unit holders is chargeable to tax and they are liable to pay additional income tax on such distributed income at the rate of twelve and one-half per cent.

1.1 In order to phase out the arbitrage opportunity, section 115R(2) has been amended so that while the specified company or a mutual fund shall continue to pay income tax on such distributed income at the rate of twelve and one-half per cent if distribution is made to any individual or Hindu undivided family, the rate shall be twenty per cent if income is distributed to any person, other than individual or HUF.

2. Under the existing provisions, the interest payable to the European Investment Bank on developmental loans granted by it, is taxable.

2.1 With a view to honour the commitment given under a sovereign agreement, the interest payable to the European Investment Bank on loans granted in pursuance of the framework agreement for financial cooperation entered into by the Central Government with the said Bank has been exempted from income-tax.

3. Under the existing provisions of section 35AC of the Income-tax Act, a deduction of the amount of expenditure incurred during the previous year by way of payment of any sum to a public sector company or a local authority or to an association or institution approved by the National Committee for carrying out any eligible project or scheme is allowed. Sub-section (4) of the said section provides that where National Committee is satisfied that the project or scheme is not being carried on in accordance with all or any of the conditions, it may withdraw the approval earlier granted to the association or institution. Sub-section (5) similarly provides for withdrawal of the notification of the eligible project or scheme if it is not being carried out in accordance with all or any of the conditions on the basis of which such project or scheme was notified.

3.1 With a view to ensure effective monitoring in cases where associations/institutions are approved or eligible projects or schemes have been notified, the sub-sections (4) and (5) have been substituted to provide for a mechanism for withdrawal of approval granted to associations/institutions or notification of eligible project or scheme by the National Committee. It has been provided that where an association or institution, to which approval has been granted, fails to furnish a progress report in the prescribed form within the prescribed time after the end of each financial year to the National Committee, the Committee may, at any time, after giving a reasonable opportunity of showing cause, withdraw the approval. It has also been provided that the notification of an eligible project or scheme may be withdrawn by the National Committee, after giving a reasonable opportunity of being heard in case a report in the prescribed form in respect of such project or scheme is not furnished within the prescribed time after the end of each financial year. It has also been provided that a copy of the order withdrawing the approval or notification through which the notification of eligible project or scheme is withdrawn shall be forwarded to the Assessing Officer having jurisdiction over the concerned association or institution or local authority or public sector company. This power of withdrawal will be in addition to the existing power of withdrawal of approvals or notifications in case the project or scheme is not being carried out in accordance with all or any of the conditions subject to which the approval was granted or project/scheme notified.

4. Under the existing provisions of the Income-tax Act, for the purpose of claiming credit for tax deducted at source or tax collected at source, TDS or TCS certificates, as the case may be, are required to be filed along with the return of income. Returns are deemed to be defective in case it is not accompanied with proof of tax claimed to have been deducted at source.

4.1 With a view to computerize the TDS and TCS functions as also enable the process of dematerialisation of TDS and TCS certificates, certain amendments have been incorporated in the provisions relating to tax deduction at source and tax collection at source.

4.2 Section 199 of the Income-tax Act which provides for credit for tax deducted on production of TDS certificate has been amended to provide that in cases where tax is deducted on or after 1st April, 2005 and is paid to the credit of the Central Government, the amount of tax deducted and specified in the statement referred to in section 203AA shall be treated as tax paid on behalf of the persons from whose income tax has been deducted or in respect of whose income the tax has been paid and credit shall be given to such persons for the amounts so deducted in the assessment made for the assessment year for which the income is assessable without the production of a certificate. Similar amendments have also been made in sub-section (4) of section 206C. Consequently, section 139(9) has also been amended to provide that returns will not be deemed to be defective if they are not accompanied by a TDS certificate in respect of tax claimed to have been deducted at source on or after 1st April, 2005.

4.3 Section 200 relating to duty of person deducting tax has also been amended by way of insertion of a new sub-section (3) to provide that any person deducting any sum on or after 1st

April, 2005 or any person being an employer referred to in sub-section (1A) of section 192 shall be required to prepare quarterly statements for the period ending on the 30th June, the 30th September, the 31st December and the 31st March in each financial year and deliver or cause to be delivered such statement in such form and verified in such manner and setting forth such particulars and within such time as may be prescribed to the prescribed income-tax authority or the person authorized by such authority. In respect of cases of tax collection at source, similar amendments have been made in sub-section (3) of section 206C. Further, sub-section (2) of section 272A relating to penalty for failure to answer questions, sign statements, furnish information, returns or statements, allow inspection, etc. has also been amended by way of insertion of a new clause (k) to provide for a penalty of hundred rupees for every day for failure to deliver or cause to be delivered the quarterly statements.

4.4 Section 203 relating to certificate for tax deducted has also been amended to provide that there shall be no requirement to furnish a certificate referred to in the said section where the tax has been deducted or paid on or after 1st April, 2005. Similar amendments have also been made in sub-section (5) of section 206C by way of insertion of the first proviso.

4.5 A new section 203AA relating to furnishing of statement of tax deducted has been inserted in the Income-tax Act to provide that the prescribed income-tax authority or the person authorized by such authority to whom the quarterly statements shall be delivered, shall, within the prescribed time after the end of each financial year beginning on or after 1st April, 2005 prepare and deliver to every person from whose income tax has been deducted or in respect of whose income tax has been paid, a statement in the prescribed form specifying the amount of tax deducted or paid and such other particulars as may be prescribed. Similar amendments have also been made in sub-section (5) of section 206C by way of insertion of the second proviso.

4.6 All assessees, including non-residents, will be required to intimate the permanent account number to the person deducting or collecting tax as otherwise credit for TDS or TCS cannot be given. Hence, the first provision to sub-section (5A) of section 139A has been omitted.

4.7 Section 272B relating to penalty for failure to comply with the provisions of section 139A has been amended so as to provide for a penalty of a sum of ten thousand rupees in case a person who is required to intimate his permanent account number as required by sub-section (5C) intimates a number which is false and which he either knows or believes to be false or does not believe to be true.

5. Under the existing provisions of subsection (1) of section 206, the prescribed person in the case of every Government office, principal officer in the case of every company, the prescribed person in the case of every local authority or other public body or association, every private employer or every other person responsible for deducting tax is required to prepare and deliver or cause to be delivered to the prescribed income-tax authority, such returns in such form and verified in such manner and setting forth such particulars as may be prescribed within the prescribed time after the end of every financial year.

5.1 Further, sub-section (2) of the said section provides for filing of such returns in accordance with such scheme as may be specified by the Board in this behalf by notification in the official gazette on a floppy, diskette, magnetic cartridge, CD-ROM or any other computer media. The filing of TDS returns on computer media under the said scheme is mandatory in the case of a company.

5.2 The sub-section (1) of section 206 has been amended to provide for filing of return of tax deducted at source with an authority or agency as may be prescribed. It has also been provided that the Board may, if it considers necessary or expedient so to do, frame a scheme for the purposes of filing of return with such other authority or agency referred to in sub-section (1).

5.3 The sub-section (2) of section 206 has also been amended to provide that the prescribed person in the case of every office of Government shall also be required to deliver or cause to be delivered within the prescribed time after the end of each financial year, TDS returns on computer media under the scheme notified by the Board. This amendment will take effect from 1st April, 2005, i.e. the mandatory filing of TDS returns by Government deductors on computer media shall be applicable to cases of tax deduction at source during the financial year 2005-2006 and subsequent years.

6. Under the existing provisions of sub-section (5A) of section 206C of the Income-tax Act, every person collecting tax at source is required to furnish half-yearly returns for the periods ending on 30th September and 31st March, in each financial year, and deliver or cause to be delivered to the prescribed income-tax authority such returns in such form and verified in such manner and setting forth such particulars and within such time as may be prescribed.

6.1 Sub-section (5B) of the said section further provides that the returns of tax collected at source may be filed on computer readable media such as floppies, diskettes, magnetic cartridge tapes, etc. as may be specified by the Board and that the information in such returns shall be admitted in evidence in any proceeding under the Income-tax Act.

6.2 Sub-section (5C) of the said section provides for the requirement of checking and authenticating of the return by the Assessing Officer and due care by him for preservation of the return in the computer media by duplicating, transferring, mastering or storage without loss of data.

6.3 With a view to bring the provisions relating to filing of TCS returns at par with those relating to filing of TDS returns, the sub-section (5A) of section 206C has been amended to provide for filing of returns of tax collected at source within the time, as may be prescribed. With this amendment, the requirement of filing the half-yearly return of TCS has been dispensed with.

6.4 It has also been provided that return of tax collected at source can be filed with any authority or agency as may be specified and that the Board may, if it considers necessary or expedient so to do, frame a scheme for the purposes of filing of returns with such other authority or agency.

6.5 The sub-section (5B) has also been substituted to provide that the person responsible for collecting tax other than in the case of a company, the Central Government or a State Government may, at his option, deliver or cause to be delivered such return to the prescribed income-tax authority in accordance with such scheme as may be specified by the Board in this behalf, by notification in the Official Gazette, and subject to such conditions as may be specified therein, on or before the prescribed time after the end of each financial year, on a floppy, diskette, magnetic cartridge etc, CD-ROM or any other computer media and in the manner as may be specified in that scheme. The filing of TCS return on computer media under the said scheme has been made mandatory in cases where a company, the Central Government or State Government, collects the tax.

6.6 Sub-section (5C) has also been substituted to provide that a return filed on computer media shall be deemed to be a return for the purposes of sub-section (5A) of section 206C and the rules made thereunder and shall be admissible in any proceedings thereunder, without further proof of production of the original, as evidence of any contents of the original or of any fact stated therein.

6.7 A new sub-section (5D) has also been inserted which provides that where the Assessing Officer considers that the return delivered or cause to be delivered under sub-section (5B) is defective, he may intimate the defect to the person responsible collecting tax and give him an opportunity of rectifying the defect within a period of fifteen days from the date of such intimation or within such further period which, on an application made in this behalf, the Assessing Officer may, at his discretion, allow; and if the defect is not rectified within the said period of fifteen days or, as the case may be, the further period so allowed, then, regardless of anything contained in any other provision of this Act, such return will be treated as an invalid return and the provisions of this Act shall apply as if such person had failed to deliver the return.

7. Under the existing provisions contained in clause (23G) of section 10 any income by way of dividends, other than dividends referred to in section 115-O, interest, or long term capital gains of an infrastructure capital fund or an infrastructure capital company or a cooperative bank from investments made in any undertaking engaged in an infrastructure project or a housing project or a hotel or hospital project is excluded from the total income.

7.1 With a view to rationalise the provision, a proviso has been inserted in the said clause so as to provide that in the case of an infrastructure capital company the above mentioned incomes shall be taken into account in computing the book profit for the purpose of section 115-JB and for payment of tax under that section. Consequential amendments have been made in section 115JB

8. The existing provisions contained in sections 245Q and 245R provide that the Authority for Advance Rulings shall on receipt of an application for advance ruling, forward the same to the Commissioner and if necessary call for the relevant records. The authority may either reject the application or pronounce its advance ruling after examining the application and the records. The existing provisions of section 245RR provide that no income-tax authority or the Appellate Tribunal shall proceed to decide any issue in respect of which an application has been made by a resident to the Authority for Advance Rulings.

8.1 Finance (No.2) Act, 2004 has inserted two new clauses (vi) and (vii) in Explanation 1 to section 153 and clause (v) and clause (vi) in Explanation to section 153B(1) so as to provide that the period commencing on the date on which application has been filed to the Authority for Advance Rulings and ending on the date on which the order rejecting the application or pronouncing the advance ruling is received by the Commissioner shall be excluded for computing the period of limitation prescribed under sections 153/153B for purpose of making assessment..

9. The existing provisions of section 278B provide that where an offence has been committed by a company, the company as well as the person who was in charge of, and was responsible for the conduct of the business of the company at the time when the offence was committed will be deemed to be guilty of the offence. The said section also provides that where the offence has been committed with the consent or connivance of any director, manager, secretary or other officer of the company, such director or other officer shall also be deemed to be guilty of the offence.

9.1 In respect of some of the offences, it has been provided that the person found guilty shall be punishable with rigorous imprisonment and with fine. A company, being a juristic person cannot be punished with imprisonment. As, for such offences there has to be punishment of imprisonment as well as of fine, a company can also not be punished with fine alone.

9.2 With a view to rationalize provisions in this regard, a new sub-section (3) has been inserted in section 278B by the Finance (No.2) Act, 2004, so as to provide that if an offence under the Act has been committed by a person being a company, and the punishment for such offence is imprisonment and fine, then, such company shall be punished with fine and any other person who was in charge and was responsible for the conduct of business of the company, or any director, manager, secretary or other officer of the company, shall be liable for punishment of imprisonment and fine, wherever so provided. Section 35HA of the Wealth-tax Act has also been similarly amended.

10. The existing provisions of section 131 provide that the Assessing officer shall have the same powers as are vested in a court under the Code of Civil Procedure, 1908, when trying a suit. One such power which has been provided in clause (d) of sub-section (1) of section 131, is the power to issue commissions, which inter-alia empowers the Assessing Officer to make a local investigation and also to hold a scientific, technical and expert investigation. Using this power, the Assessing Officer has been making a reference to the Valuation Officer for estimating the cost of construction of properties.

10.1 The scope of power vested in an Assessing Officer under section 131 to make a reference to the Valuation Officer for estimating the cost of construction of properties has been a subject matter of litigation.

10.2 A new section 142A has been inserted by the Finance (No.2) Act, 2004 with retrospective effect from 15.11.1972 to save the cases where such references have been made in the past and are still pending in litigation at one stage or the other.

10.3 Sub-section (1) of the new section provides that where an estimate of the value of any investment referred to in section 69 or section 69B or the value of any bullion, jewellery or other valuable article referred to in section 69A or section 69B is required to be made for the purposes of making any assessment or re-assessment, the Assessing officer may require the Valuation Officer to make an estimate of the same and report to the Assessing officer.

10.4 Sub-section (2) of the new section provides that the Valuation Officer to whom such a reference is made under sub-section (1) shall, for the purpose of dealing with such reference, have all the powers that he has under section 38A of the Wealth-tax Act, 1957.

10.5 Sub-section (3) of the new section provides that on receipt of the report from the Valuation Officer, the Assessing Officer may after giving the assessee an opportunity of being heard, take into account such report in making such assessment or re-assessment.

10.6 It has been provided in the proviso to the new section that the provisions of the same shall not apply in respect of an assessment made on or before the 30th day of September, 2004 and where such assessment has become final and conclusive on or before that date.

11. Under the existing provisions of section 12AA, procedure for registration of a trust or institution by the Commissioner of income-tax is provided. Although the power of cancellation of registration flows from the power to register, the same has not been specifically provided in the IT Act, thereby leading to unnecessary litigation.

11.1 This section has been amended so as to specifically provide that if the Commissioner of income-tax is satisfied that the activities of any trust or institution are not genuine or are not being carried out in accordance with the objects of the trust or institution, he shall, after giving reasonable opportunity of being heard to the concerned trust or institution, pass an order in writing cancelling the registration granted under the said section.

12. Under the existing provisions of section 10(15A), any payment made by an Indian company engaged in the business of operation of aircraft, to acquire an aircraft or an aircraft engine on lease from Government of a foreign State or a foreign enterprise

under an agreement, not being an agreement entered into between the 1st day of April, 1997 and 31st day of March, 1999, and approved by the Central Government is not included in computing the total income.

12.1 This exemption has outlived its utility and is, therefore, being withdrawn in respect of the agreements entered into on or after the 1st day of April, 2005.

12.2 Under the existing provisions of section 10(6BB), tax paid by an Indian company, engaged in the business of operation of aircraft on income derived by the Government of a foreign state or a foreign enterprise as consideration of acquiring an aircraft or an aircraft engine on lease by the Indian concern under an agreement entered after the 31st day of March, 1997 but before the 1st day of April, 1999 and approved by the Central Government in this behalf, and the tax on such income is payable by such Indian company under the terms of that agreement to the Central Government, is not included in computing the total income of the foreign enterprise.

12.3 The Finance (No. 2) Act, 2004 has amended clause (6BB) of section 10 to provide that the said exemption shall be allowed in respect of such agreements entered into on or after the 1st day of April, 2005.

13. Under the existing provisions contained in section 10(4)(ii), in the case of an individual, any income by way of interest on moneys standing to his credit in a Non-Resident (External) Account in any bank in India is not to be included in computing his total income.

13.1 The Finance (No. 2) Act, 2004 has amended clause (4)(ii) of section 10 to provide that this exemption will not be available, in respect of such income paid to him or credited to his Non-Resident (External) account in any bank in India, on or after the 1st day of April, 2005.

14. Under the existing provisions contained in section 10(15)(iv)(fa), the interest payable by a scheduled bank to a non-resident or to a person who is not ordinarily resident on deposits in foreign currency where the acceptance of such deposits by the bank is approved by the Reserve Bank of India shall not be included in computing his total income.

14.1 The Finance (No. 2) Act, 2004 has amended clause (15)(iv)(fa) of section 10 to provide that this exemption will not be available in respect of such interest payable on or after the 1st day of April, 2005.

15. Under the existing provisions contained in the Explanation to section 90 it is declared that the charge of tax in respect of a foreign company at a rate higher than the rate at which a domestic company is chargeable, shall not be regarded as less favourable charge or levy of tax in respect of such foreign company, where such foreign company has not made the prescribed arrangement for declaration and payment within India, of the dividends (including dividends on preference shares) payable out of its income in India.

15.1 The words “where such foreign company has not made the prescribed arrangement for declaration and payment within India, of the dividends (including dividends on preference shares) payable out of its income in India” in the Explanation have been omitted, as these words are redundant in the case of a foreign company.

16. Under the existing provisions contained in section 10(23FB), Venture Capital Undertaking (VCU) is defined to mean a domestic company whose shares are not listed in the recognized stock exchange in India and which is engaged in the business of providing services, production or manufacture of an article or thing but does not include such activities or sectors which are specified by the Securities and Exchange Board of India (SEBI) with the approval of Central Government by way of notification in the Official Gazette.

16.1 In order to align the definition of VCU with the one provided by SEBI, clause (c) of Explanation has been amended to define VCU as a VCU referred to in the Securities and Exchange Board of India (Venture Capital Funds) Regulation, 1996 made under the Securities and Exchange Board of India Act, 1992 and notified in the Official Gazette by the Central Board of Direct Taxes. The Board has issued Notification S.O. No. 1060 (E) dated 28th September, 2004, in this regard.

17. A new chapter XII-G has been inserted in the Income-tax Act containing sections 115V to 115VZC. The said Chapter provides for special provisions relating to taxation of the income of shipping companies.

17.1 A company, may at its option, compute the income from the business of operating qualifying ships in accordance with the provisions of the Chapter and such income shall be deemed to be the income chargeable to tax under the head “Profits and gains of business or profession”.

17.2 A company shall be regarded as operating a ship if it operates a ship, whether owned or chartered by it, and includes a case where even a part of the ship has been chartered in by it. A company will not be considered to be operating a ship, which has been chartered out by it on bareboat charter-cum-demise terms or on bare boat charter terms for a period exceeding three years.

17.3 A company shall be a qualifying company if it is –

(i) an Indian company;
(ii) the place of effective management of the company is in India;
(iii) it owns at least one qualifying ship; and
(iv) the main object of the company is to carry on the business of operating ships.

17.4 It is provided that only sea going ships or vessels which are of 15 net tons or more and are registered under the Merchant Shipping Act, 1958, or a ship registered outside India in respect of which a license has been issued by the Director-General of Shipping under section 406 or section 407 of the Merchant Shipping Act, 1958 will qualify for the purpose of tonnage tax.

17.5 Section 115VX provides that the tonnage of a ship shall be determined in accordance with a valid certificate indicating its tonnage. The said section also gives the meaning of valid certificate in cases of ships registered in India and ships registered outside India.

17.6 Section 115VG provides for computation of tonnage income. Tonnage tax will be determined by applying the prevailing corporation tax rate on a notional fixed profit. For the purpose of computing the tonnage income, the daily income will be calculated for each qualifying ship on the basis of the following rates:

(1)	(2)
Exceeding 10,000 but not more than 25,000 tons	Rs.3,610 plus Rs.28 for each 100 tons exceeding 10,000 tons
Exceeding 25,000 tons	Rs.7,810 plus Rs.19 for each 100 tons exceeding 25,000 tons.

17.7 The tonnage income for each ship will be derived by multiplying the daily tonnage income by the number of days in the previous year or the number of days the ship is operated by the company as a qualifying ship. The tonnage income shall be further increased by the deemed tonnage which is to be computed in the prescribed manner. Deemed tonnage means, the tonnage in respect of an arrangement of purchase of slots, slot charter and an arrangement of sharing of break bulk vessels. The prevailing corporation tax rate in respect of the year shall be applied on the total tonnage income to derive the tax liability. No deduction or set off shall be allowed in computing the tonnage income under this Chapter.

17.8 It has been provided that where two or more companies are operators of a qualifying ship, the tonnage income of each company shall be computed as if each had been the only operator.

17.9 Principles pertaining to arm's length price will be applicable to transactions between tonnage tax companies and unconnected (as well as connected) non-tonnage and tonnage tax entities. This principle will also apply within a single company as between its tonnage tax activities and its non-tonnage tax activities (if any). These restrictions only affect businesses where some of their activities are subject to ordinary corporation tax i.e. where some parts of the business are not eligible for tonnage tax.

17.10 It has also been provided that for the purposes of the Act, depreciation on the block of qualifying assets and block of other assets so created shall be allowed as if such written down value has been brought forward from the preceding previous year. The expression "book written down value" has been defined. It has been provided that sections 30 to 43B and section 57 shall apply as if every loss allowance or deduction referred to therein and relating to or allowable for any of the relevant previous years, had been given full effect to for that previous year itself

17.11 Profits or gains arising from the transfer of a capital asset being an asset forming part of the block of qualifying assets shall be chargeable to income-tax in accordance with the provisions of section 45, read with section 50, and the capital gains so arising shall be computed in accordance with the provisions of sections 45 to 51.

17.12 Section 115V-O provides for exclusion of book profits or loss derived from the activities of a tonnage tax company referred to in sub-section (1) of section 115V-I from section 115JB.

17.13 A qualifying company may opt for the tonnage tax scheme by making an application to the Joint Commissioner having jurisdiction over the company in the form and manner as may be prescribed.

17.14 An option for tonnage tax scheme, after it has been approved under section 115VP shall remain in force for a period of ten years. It has also been provided that an option for the tonnage tax scheme shall cease to have effect in cases where the qualifying company ceases to be a qualifying company or gives a declaration in writing to the Assessing Officer to the effect.

17.15 Section 115VR relates to renewal of tonnage tax scheme and it provides that an option for the tonnage tax scheme which has been approved under sub-section (3) of section 115VP may be renewed within one year form the end of the previous year in which the option ceases to have effect.

17.16 Section 115VS provides that a qualifying company, if it leaves the scheme at any time, whether voluntary or through expulsion, will not be eligible to opt for the tonnage tax scheme for a period of ten years from the date of opting out or default or expulsion, as the case may be.

17.17 It is provided that a tonnage tax company shall be required to credit to a reserve account an amount not less than twenty per cent of the book profits derived from the activities referred to in clauses (i) and (ii) of sub-section (1) of section 115V-I in each previous year. The amounts credited to the reserve account are to be utilized in the manner laid down in the section.

17.18 A tonnage tax company, after its option has been approved under sub-section (3) of section 115VP shall be required to comply with the minimum training requirement in respect of trainee officers in accordance with the guidelines framed by the Director General of Shipping and notified in the Official Gazette by the Central Government.

17.19 Section 115VV relates to limit for charter in of tonnage. Sub-section (1) of the section provides that in the case of every company, which has opted for tonnage tax scheme, not more than forty nine per cent of the net tonnage of the qualifying ships operated by it during any previous year shall be chartered in.

17.20 Section 115VW relates to maintenance and audit of accounts. The section provides that an option for tonnage tax scheme by a tonnage tax company shall not have effect in relation to a previous year unless such company maintains separate books of account in respect of the business of operating qualifying ships and furnishes, along with the return of income for that previous year, the report of an accountant, in the prescribed form duly signed and verified by such accountant.

17.21 Section 115VX relates to determination of tonnage. The said section provides that tonnage of a ship shall be determined in accordance with the valid certificate indicating its net tonnage. Clause (b) of the section specifies the certificates for the said purpose in the both in the case of ships registered in India and those registered outside India.

17.22 Section 115VY relates to amalgamation. The said section provides that in case of amalgamation, the provisions relating to the tonnage tax scheme shall, as far as may be, apply to the amalgamated company, if it is a qualifying company. It has also been provided that where the amalgamated company is not a tonnage tax company, it shall exercise an option for tonnage tax scheme under sub-section (1) of section 115VP within six months of the date of the approval of the scheme of amalgamation.

17.23 Section 115VZ relates to demerger. The section provides that in a scheme of demerger, the tonnage tax scheme shall, as far as may be, apply to the resulting company for the unexpired period if it is a qualifying company. It has also been provided that the option for tonnage tax scheme in respect of the demerged company shall remain in force for the unexpired period of the tonnage tax scheme if it continues to be a qualifying company.

17.24 Section 115VZA that a temporary cessation of operating any qualifying ship by a company shall not be considered as a cessation of operating of such qualifying ship and the company shall be deemed to be operating such qualifying ship for the purposes of this Chapter. It has also been provided that where a company continues to operate a ship which temporarily ceases to be a qualifying ship, such ship shall not be considered as qualifying ship for the purpose of the Chapter.

17.25 Section 115VZB relates to avoidance of tax. The said section provides that the tonnage tax scheme shall not apply where a tonnage tax company is a party to any transaction or arrangement, which amounts to an abuse of the tonnage tax scheme.

17.26 Section 115VZC relates to exclusion from tonnage tax scheme. Sub-section (1) of the said section provides that where a tonnage tax company is a party to any transaction or arrangement referred to in sub-section (1) of section 115VZA, the Assessing Officer shall, by an order in writing, exclude such company from the tonnage tax scheme after giving an opportunity of being heard to such company.

17.27 Section 33AC of the Income-tax Act relating to reserves for shipping business which provides for hundred per cent deduction of the profits derived from the business of operation of ships has also been amended to provide that no deduction shall be allowed under the said section from assessment year 2005-2006 onwards.

Measures To Accelerate Economic Development

1. Under the existing provision contained in clause (ii) of

sub-section (4) of section 80-IA, an undertaking which has started or starts providing telecommunication services, whether basic or cellular, including radio paging, domestic satellite service, network of trunking, broadband network and internet services, before the 31st day of March, 2004, is allowed a deduction for any ten consecutive assessment years out of fifteen years beginning from the year in which the undertaking starts providing telecommunication services. The amount of deduction is one hundred per cent of profits for the first five years, and thereafter thirty per cent of profits for the next five years.

1.1 With a view to give incentives to the telecom sector, the time-limit before which the eligible undertaking has to start providing telecommunication services, etc. has been extended from 31st March, 2004 to 31st March, 2005. However, the undertakings created as a result of splitting up or reconstruction of an existing business or by transfer of old plant and machinery to the new business shall not be eligible for the benefit.

2. Under the existing provisions contained in clause (iv) of sub-section (4) of section 80-IA, an undertaking or enterprise engaged in the generation, generation and distribution, or the transmission or distribution of power which begins such generation or distribution or transmission before 31.3.2006, is allowed a hundred percent deduction of the profits for any ten out of fifteen assessment years. However, the deduction is only available to a new undertaking and not to an undertaking formed by way of reconstruction or splitting up of a business already in existence. Further, the deduction is not available in the case of the transfer of old plant and machinery to the new business.

2.1 Recognizing the need to encourage investment in renovation and modernization of the transmission and distribution network, the tax benefit under section 80-IA has been extended to undertakings which undertake substantial renovation and modernization of the existing network of transmission or distribution lines during the period beginning on 1st April, 2004 and ending on 31st March, 2006.

2.2 Further, in view of the ongoing reforms of the State Electricity Boards, the restrictions imposed on the transfer of old plant and machinery and splitting up of an old business shall no longer be applicable in the case of splitting up or, reconstruction, or re-organisation of State Electricity Boards. However, this benefit shall be available only in such cases where the splitting up or reconstruction or reorganization of the State Electricity Board(s) has taken place on or after 1.4.2004.

3. Under the existing provisions contained in sub-section (4) of section 80-IB, industrial undertakings engaged in manufacture or production or operation of a cold storage plant and set up during the period 1.4.1993 to 31.3.2004 in the industrially backward States as listed in the VIII Schedule, including the State of Jammu and Kashmir, are eligible for a 100% deduction of profits for a period of 5 years, followed by 25% (30% in the case of a company) for the next 5 years. The deduction is not available to industries set up after 31.3.2004.

3.1 The terminal date for setting up of industrial undertakings in the State of Jammu and Kashmir has been extended by one more year i.e., till 31.3.2005. The Thirteenth Schedule has also been amended to include a negative list of commodities which should not be manufactured by such undertakings.

4. Under the existing provision of subsection (8A) of section 80-IB, any company carrying on scientific research and development is allowed a deduction of hundred per cent of the profits and gains of such business for a period of ten consecutive assessment years, if such company is for the time being approved by the prescribed authority after 31st March, 2000, but before 1st April, 2004. For this purpose, the prescribed authority is the Secretary, Department of Scientific and Industrial Research, Ministry of Science and Technology, Government of India.

4.1 With a view to encourage scientific research and development in the country, the deduction is being extended to companies carrying on scientific research and development, which are approved by the prescribed authority before 1st April, 2005.

5. Under the existing provisions contained in sub-section (10) of section 80-IB, a deduction equal to one hundred per cent of the profits of an undertaking developing and building housing projects is allowed if the housing project is approved by a local authority before 31st March, 2005. The deduction is subject to the conditions that the undertaking should have commenced development of the housing project on or after the 1st day of October, 1998, the project should be on a size of a plot of land which has a minimum area of one acre, and that the residential unit should have a maximum built-up area of one thousand square feet where such residential units is situated in Delhi or Mumbai and one thousand and five hundred square feet at other places.

5.1 This tax incentive was provided to increase the stock of houses for lower and middle income groups. Keeping in view the fact that there is still a huge shortage of houses, the time limit for obtaining approval from the local authority has been extended from 31st March, 2005 to 31st March 2007. However, considering the fact that removal of time limit for completion of the housing project was defeating the very purpose of the tax holiday, a time limit has been introduced for completion of the housing project. The housing project approved by the local authority before 1.4.2004 has to be completed on or before 31.3.2008 and the housing project approved on or after 1.4.2004 should be completed within four years from the end of the financial year in which the project is approved by the local authority. It has also been provided that the built-up area of the shops and other commercial establishments included in the housing project should not exceed five percent of the aggregate built-up area of the housing project or 2000 sq. ft., whichever is less. The expression "built-up area" has also been defined for this purpose.

5.2 Further, with a view to encourage redevelopment of existing buildings in slum areas, the condition of minimum plot size of one acre and also the time limit for completion of the construction has been relaxed in the case of a housing project, carried out in accordance with a scheme framed by the Central Government or a State Government for reconstruction or redevelopment of existing buildings in areas declared to be slum areas under any law in force, and which are notified by the Board.

6. Under the existing provisions of section 80-IB(11A), an undertaking deriving profit from the integrated business of handling, storage and transportation of food grains, is allowed a deduction of hundred per cent of such profits for a period of five assessment years and thereafter twenty five per cent (thirty per cent in the case of companies) for the next five years.

6.1 Since the agro-processing industry is an important source of employment, especially in the rural areas, the deduction has been extended to undertakings engaged in the business of processing, preservation and packaging of fruits or vegetables.

Introduction of Securities Transaction Tax

1. Chapter VII of the Finance (No.2) Act, 2004 contains provisions regarding levy of securities transaction tax on certain transactions in securities/units. It has been provided that Securities Transaction Tax shall be charged in respect of the following transactions at the rates as under:-

(i) 0.075% 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) 0.075% 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 seller,

(iii) 0.015% 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) 0.01%, on the value of transactions of derivatives being option or future, entered in a recognised stock exchange,

(v) 0.15% on the value of transactions of sale of units of an equity-oriented fund to the mutual fund.

1.1 "*Equity oriented fund*" has been defined to mean a fund where the investible funds are invested by way of equity shares in domestic companies to the extent of more than 50% of the total proceeds of such funds and which has been set up under a scheme of a mutual fund. It has been provided that the percentage of equity share holding of the fund shall be computed with reference to the annual average of the monthly averages of the opening and closing figures.

1.2 It has been provided in the said Chapter that the Board may specify by rules the method of determining the value of taxable securities transaction.

1.3 Vide notification S.O. No. 1058 (E) dated 28th September, 2004 the provisions of securities transaction tax have been made applicable w.e.f. 1.10.2004. Further, securities Transaction Tax Rules, 2004 have also been notified by the Central Government vide notification S.O.No.1059(E) dated 28th September, 2004. These rules lay down the method for determining the price in respect of transactions of purchase and sale of equity shares and units settled in a stock exchange in respect of three modes of settlement i.e., netted settlement mode, trade to trade settlement mode and auction settlement mode.

1.4 It has also been provided in the rules that the return of taxable securities transaction shall be furnished by the recognised stock exchange in Form No.1 and by the mutual fund in Form No.2. The format of the Form No.1 and Form No.2 has also been prescribed. The return of taxable securities transaction entered into during a financial year shall be furnished on or before 30th June of the financial year immediately following the financial year in relation to which taxable securities transactions are to be reported.

1.5 The following persons shall be required to sign the return on behalf of stock exchange/ mutual fund-

(i) for a corporate stock exchange, the managing director or a director,

(ii) any other stock exchange, the principal officer,

(iii) for a mutual fund the trustee or such other person managing the affairs of the mutual fund as may be duly authorised by the trustee.

1.6 Section 102 of the said Chapter provides that the Assessing Officer shall make an assessment of the value of taxable securities transactions made during any relevant financial year and determine the amount of securities transaction tax payable or refundable on the basis of the return filed by the assessee and on the basis of such accounts or documents or other evidence as may be submitted by the assessee.

1.7 Section 110 provides for filing of appeal to the Commissioner of Income-tax (Appeals), in such form and verified in such manner as may be prescribed by the Board, in cases where the assessee is aggrieved by any assessment order passed by the Assessing Officer.

1.8 Section 111 provides for filing of appeal to the Appellate Tribunal in such form and verified in such manner as may be prescribed by the Board, in cases where the assessee is aggrieved by any order passed by the Commissioner of Income-tax (Appeals).

1.9 Consequent upon the levy of Securities Transaction Tax, the following amendments have been brought in the Income-tax Act:

(i) A new clause (38) has been inserted in section 10 providing for exemption from tax on the long term capital gains arising out of transfer of an equity share in a company, or unit of an equity oriented fund, where such transfer takes place on or after the date on which Chapter VII of the Finance (No.2) Act, 2004 comes into force and such transaction is chargeable to Securities Transaction Tax.

(ii) A new section 111A has been inserted so as to provide that short term capital gains arising out of transfer of an equity share in a company, or unit of an equity oriented fund, where such transfer takes place on or after the date on which Chapter VII of the Finance (No.2) Act, 2004 comes into force and such transaction is chargeable to Securities Transaction Tax shall be charged at the rate of 10%.

(iii) Section 115AD of the Income-tax Act, 1961, relates to tax on income of Foreign Institutional Investors from securities or capital gains arising from their transfer. Section 115AD has been amended so as to provide that income by way of short term capital gains referred to in the newly inserted section 111A shall be charged at the rate of 10%.

(iv) A new sub-clause (ib) has been inserted in clause (a) of section 40 providing that any sum paid on account of securities transaction tax shall not be allowed as a deduction for the purposes of computing the income chargeable under the head "Profits and gains of business or profession".

(v) A new proviso has been inserted in section 48 providing that any sum paid on account of securities transaction tax shall not be allowed as a deduction for the purposes of computing the income chargeable under the head "Capital gains".

(vi) A new section 88E has been inserted providing that where the total income of the assessee in a previous year includes any income chargeable under the head "Profits and gains of business or profession" arising from transactions chargeable to securities transaction tax, he shall be allowed a deduction of an amount equal to the securities transaction tax paid by him in respect of transactions chargeable to securities transaction tax entered into in the course of his business during that previous year, from the amount of income-tax on such income arising from such transactions.

4.12 Foreign Tax Division

Double Taxation Avoidance Agreements (DTAAs) for the period January 2004- December 2004

(i) The attempt of various countries to assert their jurisdiction to tax world-wide incomes of their residents and also exercise jurisdiction with regard to incomes accruing or arising within those countries gives rise to the problems of double taxation. The Double Taxation Avoidance Agreements (DTAAs) also called Double Taxation Avoidance Conventions (DTACs) endeavor to provide the taxpayers protection against taxation of the same income in two countries. These Agreements, besides providing a reasonable element of legal and fiscal certainty for carrying on international operations, also stimulate the flow of trade, capital, technology and personnel. Co-operation between the tax authorities is also established.

(ii) During the period from January, 2004 to March, 2005, negotiations for finalisation of comprehensive DTAAs/DTACs were held with the delegations from Saudi Arabia, Azerbaijan, Bahrain, Kuwait, Uruguay & Senegal. Negotiations for revision of certain articles of existing DTAC with Romania were also held. Discussions were held with Singapore authorities for improvements in the existing DTAA under the umbrella of Comprehensive Economic Cooperation Agreement between India & Singapore. India also played a pivotal role in the negotiations for a Multilateral Limited Agreement on Avoidance of Double Taxation and Mutual Administrative Assistance in Tax Matters amongst SAARC Member States. DTAAs/DTACs with Uganda, Sudan and Armenia were notified on 12.10.04, 01.11.04 and 08.12.04 respectively. DTAA with Malaysia has been revised and the revised DTAA was notified on 12.10.04. As on date, India has notified comprehensive DTAAs/ DTACs, covering all sources of income, with 68 countries. Similarly, India has limited air and shipping agreements with 10 countries.

4.13 Audit and Public Accounts Committee

Given the importance of C&AG and Public Accounts Committee of Parliament in providing checks and balances to the functioning of the Income Tax department, the observations of the C&AG by way of Draft Paragraphs (DPs) and System Appraisals are thoroughly examined by the Audit & Public Accounts Committee (A&PAC) Division of CBDT. The comments of the Ministry are compiled in consultation with the field authorities and then furnished to the C&AG. This Division also furnishes information to the Public Accounts Committee by replying to their Advance Questionnaire and the Questions arising after the Oral Evidences are taken by the Committee.

During the year 2004(from 1st January 2004 to 31st December 2004), C&AG has called for the comments of the Ministry on 930 Draft Paras proposed for inclusion in their Audit Report for the year 2003-2004. Replies of 86 DPs were furnished to C&AG during this period. C&AG Report for the year ending March 2003 (Report No. 12 and 13 of 2004) were presented before the Parliament on 13 July 2004. 963 Paragraphs were included in C&AG's report for the Year 2002-03 (No. 12 0f 2004). Action Taken Notes (ATNs) on these Paragraphs are being sent to C&AG in consultation with DIT (Audit).

Audit Report Year-wise disposal of ATNs/DPs is as under:-

Audit Report Year	No. of DP. Replied	No. of ATN/Revise ATN sent to C&AG	No. of ATN sent to Monitoring Cell
1997-1998	Nil	1	6
1998-99	Nil	11	27
1999-2000	30	76	57
2000-01	128	193	164
2001-02	300	381	285
2002-03	539	499	107
2003-2004	86	Nil	Nil
Total	**1083**	**1161**	**646**

(Source: A&PAC)

C&AG Report No.13 of 2004 contained three System Appraisals/Reviews on the following subjects:-

(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.

(iii) Assessment of private schools, colleges and coaching centers.

All these reviews have been forwarded to all Cadre Controlling Chief Commissioners of Income Tax for their comments. On some of the points replies have been received and on remaining points concerned CCsIT have been reminded regularly for their comments.

Three draft system reviews have also been received on the following subjects for inclusion in C&AG report No.13 of 2005:-

(i) "On efficiency and effectiveness of administration and implementation of selected deductions and allowances under the I.T. Act (received on 24.12.2004).

(ii) "On re-structuring of income tax department"

(iii) "On some aspects of non-resident taxation with reference to double taxation avoidance agreements (DTAA)".

All these reviews have been circulated/are being circulated to concerned CCsIT/field formations for their comments.

A part reply to the system Review on "Implementation of Selected Judgments of Supreme Court" included in C&AG's Report No. 13 of 2003 has been sent to C&AG. Reply to the System Review on "Assessment of Companies in the Select Sectors of Pharmaceuticals, Food Processing, Paints & Varnish and Cigarettes Sector" included in C&AG's Report No. 13 of 2003 has also been submitted to C&AG. Reply to the Review on Kar Vivad Samadhan Scheme, 1998 included in C&AG's Report No. 12 A of 2001 has also been submitted during the year. Reviews on "Functioning of Judicial wing of Income Tax Department with reference to Appellate orders received during the 1998-99 to 2000-01 (Not included in C&AG Report 12 of 2004)" and on "Effectiveness of liquidation of outstanding arrears of demand of Rs.50 lakhs as above as on 1st April, 2001 (included in C&AG Report No.13 of 2003) are being processed in consultation with concerned CCsIT.

During this year three advance questionnaires were received from the Lok Sabha Secretariat on the following subjects;

(i) Assessment of Private Schools, colleges and Coaching Centers." (C&AG Report No.13 of 2004).

(ii) "Two selected Paragraphs of C&AG's Report No. 12 of 2004".

(iii) Effectiveness of liquidation of outstanding arrears of demand of Rs.50 lakhs as above as on 1st April, 2001.

(iv) Operation of scheme of taxation of companies under special provision of I.T. Act (Section 115JA/JB).

(v) On assessment of business of civil construction.

Replies/reports were called for from all concerned field formations. Reply to the advance questionnaire on "Two selected Paragraphs of C&AG's Report NO. 12 of 2004" and "Effectiveness of liquidation of outstanding arrears of demand of Rs.50 lakhs as above as on 1st April, 2001" were sent to Lok Sabha Secretariat. Reply to the other three advance questionnaires is being processed further and will be submitted to Lok Sabha Secretariat shortly.

Besides the above, a number of rejoinders received from C&AG Office on DPs of various Audit Reports from 1994-95 to 2001-02 were forwarded to the field offices and reports were collected, compiled and processed. Thereafter, replies to the rejoinders were sent and replied to C&AG Office at different intervals during the year. The Statistical data for inclusion in Audit Report 2003-04 has also been called from the concerned sections/ offices of CBDT, and reply has been sent to C&AG of India.

4.14 Directorate of Income Tax (Income Tax)

Directorate of Income Tax (IT) has two wings, namely, Inspection Wing and Examination Wing.

Inspection Wing: Post restructuring, a comprehensive inspection mechanism has been devised. Commissioners of Income Tax are now required to compulsorily conduct two categories of inspection in every F.Y. i.e. Inspection of System and Inspection of Assessment work. Further, Range heads are required to conduct the inspection of the work of TROs and Directors of Income Tax (Inv.) are required to conduct the inspection of the work of Joint/Addl. Directors of Income Tax (Inv.).

Under the new system of Inspection, the Inspection Wing monitors the progress of inspections by the field formations, examines and reviews inspection reports, identifies the instances of good work done in the field as well as the shortcomings and defects therein and prepares Annual Review of Inspections.

The numbers of Inspection Reports received and scrutinized during the last six years are 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 (up to 31.12.2004)	2421	-

During the current F.Y., the scope of inspection has further been extended to the work of CsIT (DR), CsIT (CO), CsIT (TDS), & Sr. DR (ITAT). The inspection proformas have been devised and circulated and the reports are due by May 2005.

The new system of Inspection has brought about substantial improvement in the quality as well as the number of inspections carried out in the field.

Examination Wing: The main function of the Examination Wing is to conduct Departmental Examinations for IRS (Probs.) and members of the staff and declare results. Result of the Departmental Examination for the IRS (probs.) of 56th Batch were finalized and declared on 13.4.2004 while the result of the Departmental Examination for ITOs and ITIs was finalized and declared on 14.8.2004. The Departmental Examinations for the IRS (Probs.) of 57th Batch and the unsuccessful probationers of 56th Batch were held in Nov. 2004 and the consequential work relating to the evaluation of answer books and the publication of results is in progress.

Besides conducting examinations for various cadres of the Department and declaring results, the Examination Wing also reviews and interprets the rules and syllabi of various examinations, implements the policy of the Govt. regarding Departmental Examinations and deals with the complaints, grievances and representations of the candidates appearing in Departmental Examinations.

4.15 Directorate of Income-Tax (Audit)

I Internal Audit working

i) New System of Internal Chain Audit

As part of restructuring of Income-Tax Department, earlier Internal Audit System has been replaced with a new system of Internal Chain Audit as per Instruction No. 08/2001 issued on 6-12-2001. Now Internal Audit is being conducted on a "Chain Basis" as a continuos process. Officers of the rank of Addl. /Joint Commissioners of Income-Tax (Range) and Assessing Officers perform twin functions of officers who function as Auditors and also their cases are audited by Assessing officers from other Commissioner charges. Continuous meetings with the field staff/ officers of CCsIT/DGsIT were held to make the new system operative.

ii) Inspection of Audit Wing by the Directorate: Regular Audit Inspections were conducted in the CCIT Regions of Ludhiana, Mumbai, Lucknow and Delhi.

iii) During the period of first six months of the Current Financial Year, major objections were raised in 818 cases with tax effect of 88.55 crores as against objections raised in 1142 cases with tax effect of 141 crores during entire preceding Financial Year. During the period of first six months of the Current Financial Year, 740 major objections were settled with tax effect of Rs. 147.34 crores as against 1466 objections settled with tax effect of 275.63 crores during entire preceding Financial Year.

II Processing of Work relating to Revenue Audit

1) *C&AG Report 2002-2003*: 963 Draft Paras included in the Comptroller & Auditor General's Report for 2002-2003 were received during the year. CBDT has taken decision in 792 cases and accepted objections in 548 cases. Action Taken Notes were sent to CBDT in these cases.

2) C&AG Report 2003-2004: 931 Draft Paras proposed to be included in the Comptroller & Auditor General's Report for 2003-2004, have been received, and are under process with CBDT.

3) Quarterly Reviews of Revenue and Internal Audit and its circulation: 3 quarterly Reviews of Revenue and Internal Audit objections were prepared and circulated.

4) Statement XVI: Statistical data was prepared for inclusion in the Report of C&AG for the year 2003-2004 (Statement XVI).

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)

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 and to monitor the progress of recovery in those cases. The broad functions of the Directorate are as under:

(a) Collection of dossiers pertaining to cases involving tax arrears of Rs. one crore and above from all CCsIT/DGsIT charges dealing with assessment work.

(b) Scrutiny of the dossiers, formulating comments and suggestions thereon and communicating the same to the field formations.

(c) Monitoring the progress of recovery in dossier cases.

(d) Preparation of Quarterly Report of Analysis of Dossiers of Rs. 25 Crore and above, for monitoring of high demand cases by CBDT.

(e) Inspection of field offices for speeding up of collection/ reduction of tax arrears.

(f) Collection and compilation of statistical data, and furnishing material to CBDT for making replies to various Parliament Questions on arrears of demand.

(g) Processing of write-off and scaling-down-of-arrear demand proposals received from CCIT charges.

(h) 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.

From 1st April'04 to 31st December'04 (9 months) over 5000 dossier cases were compiled and analyzed in respect of each quarter. Thus upto December, 2004 more than 15,000 dossiers have been compiled and analyzed. Further, over 2000 BIFR cases were processed and various matters pertaining to them were handled. Inputs were provided to CBDT for replying to several Parliament Questions regarding arrear demand.

Details of outstanding demand involved in dossier cases as on 30.09.04 are as follows:-

Slab	No. of Cases	Demand as on 30.9.2004 Amount (Rs. In lakhs)
Rs. 1-25 crore	4896	19,41,252
Rs. 25 crore & above	405	60,45,514
Total	**5301**	**79,86,766**

Creation of Task Force for the Collection of Arrears

CBDT launched a special drive for the collection of arrears during the current financial year. For this purpose, a Task Force was set up vide CBDT's O.M. dated 10.8.04. The Task Force, headed by Member(R), comprises of DGIT (Admn.), DIT (Recovery) and 7 Additional / Joint DsIT. From out of 5516 dossiers of arrears of Rs 1 Cr and above (aggregating to Rs 87,000 Cr) as on 31st March 2004, 2421 cases of arrears aggregating to Rs 22000 Cr were identified for special focus and intensive case-wise monitoring. Monitoring was done by obtaining fortnightly case-wise reports from the field formations in respect of the selected cases.

The Task Force also identified other work areas having a bearing on the collection of arrears, and monitored them by fortnightly and other appropriate reports and statements. These other work areas monitored by the Task Force were: disposal of high demand cases by CsIT (Appeals), ITAT and the Settlement Commission; ensuring that departmental representation before ITAT in high demand cases is prompt and effective; requiring the Investigation Wing, in appropriate cases, to assist in recovery by conducting surveys and secret inquiries for locating any undisclosed assets; ensuring that Core Committees were formed at the regional level consisting of the Cadre Controlling CCIT, CCIT concerned, CIT concerned and DIT (Investigation), and that they functioned effectively to assist the Task Force in the recovery effort; and requiring CCsIT to converned review the quality of appellate orders passed by CsIT (Appeals) in appeals involving disputed demands of Rs 1 Cr and above.

Thus, through vigorous monitoring of recovery in major cases, this Directorate has played a vital role in the collection and reduction of arrears during the financial year 2004-05.

4.17 Directorate of Income Tax (Research, Statistics, Publications & Public Relations)

This Directorate is responsible for compilation of statistics relating to Direct Taxes, printing and distribution of all Statutory and non-Statutory Forms, publication of Tax-Payer Information booklets/brochures, publicity of provisions of Direct Tax Laws and implementation of Official Language in the Income Tax Department.

The important features of the work done by this Directorate during the period 01.01.2004 to 31.12.2004 are as under:

1. Print media and electronic publicity for Tax Deduction at Source (TDS), importance of quoting of PAN, Advance Tax, Due Date of filing of Income Tax Return etc. were carried out during the period. Advertisement was undertaken through Department of Audio Visual Publicity (DAVP).

2. A 13-part teleserial "Kar Se Shikhar" was produced and telecast on Doordarshan National Network from April 2004 to June,2004. This serial was part of the sustained publicity campaign to promote Voluntary Tax Compliance by existing and potential tax payers.

3. A Core Group was formed under the direction of Chairman, CBDT to compile section wise Board's Circulars and instructions issued during the period from 1.04.1987 to 30.09.04. Material received from various members of the Core Group was compiled and the software for print as well as HTML version is being developed.

4. Quarterly Tax Bulletin (English) Vol. 64 - April 2003 to June, 2003 got printed and distributed to all the field offices. Vol.65 (English) - July, 2003 to Sept. 2003 & Vol.66 - Oct. 2003 to Dec.2003 are under printing. Vol. 67 (English) Jan., 2004 to March, 2004 and Vol. 68 (English) - April, 2004 to June, 2004 are under preparation.

5. Direct Taxes Bulletin Vol. 36 (2) (Oct., 97 to March, 98) Vol. 37 (2) (Oct., 98 to March, 99) & Vol. 38(1)(April, 99 to Sept, 99) were printed & distributed to all the field offices.

6. Direct Tax Bulletin Vol. 37 No. 1(Half Yearly – April, 98 to September, 98), Vol. 38 No. 2 (Half Yearly – October, 99 to March, 2000) Vol. 39 No. 2 (Half Yearly - Oct. 2000 to March 2001 & Vol. 40 (2) (Half Yearly-Oct. 2001 to March, 2002) are under printing.

7. Direct Tax Bulletin Vol. 41 No. 1 (Half Yearly - April 2002 to Sept., 2002), Vol. 41 No. 2 (Half Yearly - Oct., 2002 to March 2003), Vol. 42 No. 1 (Half Yearly - April 2003 to Sept. 2003) & Vol. 42 No.2 (Half Yearly - Oct. 2003 to March, 2004) are under preparation.

8. A booklet "Filing Your Tax Return" translated in Hindi.

9. Consolidation of All India Statistical Reports for the year 2003-04 completed in respect of:

i. Income Tax, Corporation Tax and Other Taxes.
ii. Disposal and pendency of Appeals with CIT(A)
iii. Disposal and pendency of Appeals, References and Writs before Income Tax Appellate Tribunal/ High Courts/ Supreme Court
iv. Tax Recovery work
v. Aggregation of agricultural income with non-agricultural income
vi. Write-off of Arrears demand of Rs 10,000 and below
vii. Company and non-company profile for Assessment Year 2001-02
viii. Statistical data for inclusion in C&AG Report for the year 2003-04
ix. Other Miscellaneous Statistics

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 staffing norms, besides providing other policy management services as an internal consultant of CBDT.

The Directorate also reviews the Central Action Plan (CAP), by regularly monitoring the performance of the field offices vis-à-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-à-vis the targets, on a quarterly basis.

Some of the important assignments completed, are mentioned below:

i. A pilot study was conducted in CCIT-Delhi region to assess reduction in litigations in view of Board's Instruction No.1979 dated 27.03.2000.
ii. Comprehensive study on "Facility of Petrol reimbursement expenses to

the Income Tax Department".

iii. Compilation of quarterly statements on sanctioned and working strengths of officers and staff in respect of different Cadre Controlling Chief Commissioners of Income Tax.
iv. Preparation of different comparative monthly statistical statements/tables on Cash Collection out of Arrear Demand, Net Collectible Arrear Demand etc. to monitor the Collection trends, in respect of all the CCsIT/DGsIT (Inv.).

v. The revision of format of CAP-I (Demand & Collection Report).

In addition to the above, this Directorate processed the following references on various subjects:

i. Examination of clients' charter, prepared by Ministry of Parliamentary Affairs.
ii. Examination of proposal on "Changes in the Induction Training of the IRS Probationers".
iii. Grant of Cash Handling Allowance to Sr. Tax Asstt./Tax Asstt.
iv. Deployment of Notice Servers in Tamil Nadu Region.

4.19 Directorate General of Income Tax (Vigilance)

Under the restructured set up of the Income Tax Department, the earlier Directorate of Income-tax (Vigilance) has been upgraded to Directorate General of Income –tax (Vig) headed by the Director General of Income-tax (Vigilance), who is also the CVO of the Income Tax Department, with its headquarters at New Delhi. Under him there are four Directorates of Income Tax (Vig) each headed by a Director of Income-tax with headquarters at Delhi, Mumbai, Chennai and Kolkata.

The Director General of Income-tax (Vig) is under the direct administrative control of the Board and overseas the processing of vigilance cases, mainly against the Gazetted Officers of the Income Tax Department. Majority of the vigilance cases being investigated relate to irregularities in assessments, search and seizure action and other areas of technical functions where undue favours are alleged to have been shown to private parties besides financial and other irregularities. These cases are investigated departmentally. Cases of disproportionate assets, demand and acceptance of bribe forgery/interpolation etc., are generally investigated by the CBI. Vigilance clearance are issued in respect of the Group A officers of Income Tax Department for the purpose of promotions, deputations, retirement, rewards, training etc., by DGIT(Vig), while in respect of Group B officers, these are issued by the concerned DIT(Vig). Emphasis on preventive vigilance is being given to reduce the areas of corruption with close monitoring of the cases and also by constant interaction with the Dy. CVOs with Zones-in-charge of the CBI.

In order to streamline the procedure and update knowledge of its field functionaries, vigilance conferences are held on regional level each year. Various issues such as 'preventive vigilance', processing of complaints, preliminary verification/inquiries, suspension and allied matters, disciplinary proceedings, preparation of Agreed List, appeal, revision and review and other connected matters are discussed. The open house allows the participants to clear their doubts on various issues. Such open house meetings allow the participants to clear their doubts on various issues, and help in changing the methods, techniques and purpose of vigilance set-up with changing administrative and economic scenario.

The basic sources of information are signed complaints from members of public, VIP references, periodical inspections etc. The statistics on various issues in respect of the Gazetted officers for the period 1/1/2004 to 31/12/2004 are as under:

I.	**Complaints**	
(i)	Number of complaints received and Examined	1160
(ii)	Number of complaints taken for Investigation	82
II.	**Departmental Proceedings:**	
(i)	Number of cases investigated and referred To CVC	68
(ii)	Number of cases where Disciplinary Proceedings were initiated	47
(iii)	No. of cases where Departmental Proceedings were finalized	28
III.	**Criminal proceeding**	
(i)	No. of Investigation reports from CBI Recommending prosecution received/examined	7
(ii)	No. of cases where prosecution was Sanctioned	5
IV.	Number of cases where vigilance clearance granted	2639

4.20 Director General of Income Tax (Training)

The National Academy of Direct Taxes (NADT) is located in Nagpur. It 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 regular recruits to 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 Regional Training Institutes (RTIs) and Ministerial Staff Training Units. The academy has eight regional training institutes at Bangalore, Kolkata, Hazaribagh, Lucknow, Chennai, Chandigarh, Ahmedabad and Mumbai, along with 26 Ministerial Staff Training Units spread all over the country.

The Academy is headed by a Director General of Income Tax (Training) and its RTIs are headed by Commissioner of Income Tax. The training methodology consists of lectures by both in-house and guest faculty, panel discussion, case study, group discussion, workshop, in-basket exercise, seminar, role play, simulation exercise and tutorials. Academy has made a conscious effort to sensitise the trainees on important topics such as gender issues at workplace, image building and citizen's character and promotion of Official language etc. All the long term courses have sessions on above topics.

On the basis of training needs analysis conducted by the academy training modules were developed and courses conducted during the year.

5. NARCOTICS CONTROL DIVISION

5.1 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 have been 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 been 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, Department of Revenue, Ministry of Finance

(A) Central Bureau of Narcotics (CBN)

Functions/Working of CBN:

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 2003-04, 1061 tons of opium at 70 degree consistence was procured.[0] The average yield at 70 degree consistence on basis of provisional results received from MP, Rajasthan and UP for the crop year 2003-04 was 59.47, 59.83 & 42.27 kg/hectare respectively. The All India average yield during 2003-04 was 57.55 kg/hectare at 70 degree consistency (provisional). The All India average yield per hectare is higher by 2 kg/hectare as compared to the preceding crop year 2002-03.

The CBN has issued opium cultivation licence to 87676 cultivators for a total area of 8771 hectares for the crop year 2004-05.

2. 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.

3. 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 2004, as a result of financial investigation undertaken by the Central Bureau of Narcotics, movable/immovable properties of drug traffickers and their relatives worth Rs. 4,99,54,094/- in four cases have been freezed under the provisions of NDPS Act, 1985.

Besides above, as per orders of Competent Authority & Administrator, SAFEM (FOP) A & NDPS Act 1985, Lucknow dated 30.12.2003, Deputy Narcotics Commissioner, Lucknow has taken over the possession of movable/immovable properties worth Rs. 15,70,000/- in a seizure case of heroin effected in December 1995.

Central Bureau of Narcotics had also taken action to detain drug traffickers under the provisions of PITNDPS Act, 1988. During the year 2004, detention orders against 19 persons were issued by the detaining authority, out of which detention against 6 persons has been confirmed by the Advisory Board, detention order against 7 persons were revoked, and decision of Advisory Board is awaited in 6 cases.

During the year 2004, the CBN booked 69 cases / and arrested 114 persons for various offences under the NDPS Act 1985. The cases included seizures of 541 kg of opium, 76 kg of heroin, 29 kg of morphine, 14 kg of charas, 3 kg of ganja, 6250 kg of poppy husk and 97 ltrs. acetic anhydride. Seven clandestine laboratories for manufacture of heroin and morphine were detected and dismantled.

4. Achievements of CBN

(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, Dehradun, 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.

(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.

(iii) Joint Licit Opium Poppy Survey (JLOPS).

The Central Bureau of Narcotics has also undertaken a scientific project 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.

(iv) The import and export of Narcotics Drugs, psychotropic substances and precursor chemicals is monitored under strict check. CBN has also taken measures to educate the exporters and importer to be vigilant and take precautionary measures to avoid transaction with scrupulous importer and exporter.

(v) 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.

(B) Government Opium and Alkaloid Works (GOAW)/Chief Controller of Factories

(B) Government Opium & Alkaloid Works

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 action plan for upgradation of the two GOAW at Ghazipur and Neemuch has been executed. This is expected to increase the captive consumption of opium for production of various drugs and also reduce imports. However, during the period April-December 2004, the performance of the CCF organisation has been adversely affected because of unfavourable global market resulting in steep fall in opium export and partial shut down of plants resulting in reduced production of alkaloids. Consequently, during the period April-December 2004, the CCF organisation could export only 177 MT of opium and produce 9.8 MT of various alkaloids against the export of 481 MT of opium and production of 18.58 MT of various alkaloids during the previous year 2003-04.

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

6.1 The Central Economic Intelligence Bureau (CEIB) was set up in 1985 for coordinating and strengthening the intelligence gathering activities, and enforcement action by various agencies at the Central and State Government level concerned with investigation into economic offences and enforcement of economic laws.

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 Statisticians, Senior Technical Officers, and other staff. The Bureau has a sanctioned strength of 133 officers & staff.

The Bureau's charter was revised in the year 2003 to enable 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 the revised mandate, the emphasis of Bureau's functioning is now on the operational coordination between different enforcement and investigation agencies dealing with economic offences. In its role as a Secretariat for Economic Intelligence Council (EIC); 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

Coordination

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. The REICs of the Ahmedabad and Chennai have distinguished themselves by being 100 % on schedule during the current financial year (upto January, 2005). There has also been improvement in the sharing of information and the quality of information being shared in the REICs.

Realizing the importance of E-governance, CEIB has taken an initiative aimed at facilitating real time sharing of information among the participating members of REICs through a secured network of encryption in consultation with the National Informatics Centre (NIC), New Delhi.

Intelligence Activities

The Bureau has inter alia undertaken the following intelligence activities during the current financial year (December, 2004).

1. Intelligence regarding evasion of service tax and income tax by taxi operators and tourist bus operators in Ernakulam District of the Kerala State by getting their vehicles registered in benami names was forwarded to the Convener REIC, Kochi.

2. Information regarding bogus claims of Central Excise Duty rebate amounting to Rs. 11.74 Crores by 25 units of Surat engaged in processing of manmade fabrics on the basis of forged shipping bills were forwarded to the Convener, REIC, Vadodara.

3. An intelligence about Central Excise duty evasion due to expiry of notification no.6/2002 CE dated 01.03.2002 amounting to several crores of Rupees by certain Oil Corporations was passed on to the Directorate General of Central Excise Intelligence, New Delhi. This resulted into further detection of Central Excise duty evasion to the tune of Rs. 35.91 Crores.

4. An information regarding misuse of exemption from Central Excise duty on pipes for setting of water treatment plants vide notification No.6/2002-CE dated. 1-3-2002 was passed on to the Central Board of Excise & Customs, New Delhi. The revenue loss was estimated to be huge.

5. An information regarding misdeclaration and duty evasion on import of texturised fabric declared as non-texturised was passed on to the Directorate General of Revenue Intelligence, New Delhi for follow up action.

6. Intelligence inputs were provided regarding printing, smuggling and circulation of fake Indian Currency notes to National Security Council Secretariat (NSCS) from time to time. Intelligence inputs on the subjects tasked by NSCS were provided to various Conveners.

Administration of COFEPOSA Act

The overall administration of the COFEPOSA Act, 1974 including monitoring of actions 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 2004 to 31st December 2004, fourteen detention orders were issued by the specially empowered officer of the Central Government. Thirteen persons were detained during this period, including those against whom Detention Orders were issued by the specially empowered officers of the Central Government during the previous year.

Bulletins / Publications

The Bureau brings out monthly "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. Analytical reports on "Trafficking Trends in major Drugs", "Trends in Income Tax Evasion- An Analysis", "Fake Indian Currency Notes", "Economic Offences – A Review", "Trend in Service Tax Collection", Trend in Seizure of Principal Commodities under Customs Act, 1962", "Income Tax Search & Seizures- An Analysis", "Trends in Central Excise duty Evasion", "Seizures at International Airports in India", "Seizures across the land Borders under Customs Act in India", "Trend in Currency Seizure under FEMA" etc. find a place therein.

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 2004-05, 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 Secretariat. Training Institute, Gurgaon.

Paper on 'Cyber Crimes':

In view of its relevance to the present times, the Bureau prepared a paper on "Cyber Crimes – The Revenue Angle". The paper analyzed various facts of cyber crimes like Internet gambling, credit card frauds, money laundering etc. and contained specific recommendations to strengthen the Information Technology Act, 2000.

Pending Audit Objections

As on 31st March 2004, four audit paragraphs are pending.

7. DIRECTORATE OF ENFORCEMENT

Organisation

The Directorate of Enforcement was set up in 1956 to conduct investigations into violations of the provisions of Foreign Exchange Regulation Act, 1947 and after its repeal, the Foreign Exchange Regulation Act (FERA) of 1973, After repeal of FERA, 1973, the Directorate was mandated primarily as the investigation and adjudicating agency under Foreign Exchange Management Act, (FEMA), 1999. In addition, consequent upon the enactment of the Prevention of Money Laundering Act (PMLA), 2002, the Directorate has been entrusted with certain tasks such as formulation of Rules under PMLA and the allied activities.

At present, the Directorate has seven Zonal Offices at Ahmedabad, Bangalore, Chennai, Delhi Jalandhar, Kolkata and Mumbai; nine Sub-zonal Offices at Agra, Kozhikode, Guwahati, Panaji, Hyderabad, Jaipur, Srinagar, Thiruvananthapuram & Varanasi, and one field unit at Madurai.

Main Functions

(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-realisaltion of export proceeds, non-repatriation of foreign exchange and other forms of violations under FEMA, 1999;

(iii) To adjudicate cases of violations of the provisions of 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); and,

(vii) To formulate Rules under PMLA, 2002 and allied activities.

Performance & Achievements

Highlights of the achievements during the financial year 2004-05(upto November 04) are as follows: -

(i) Adjudications

A total number of 1983 cases under FERA 1973, and 367 cases under FEMA 1999 have been adjudicated.

(ii) Recoveries of Penalty

The penalty, totaling Rs.1480.32 lakhs, has been realized under FERA 1973. The penalty recovered under FEMA, 1999 adjudication cases is Rs.69.19 lakhs.

(iii) Confiscation of Indian Currency under FERA, 1973

(a) The amount of confiscated Indian Currency of Rs.408.41 lakhs has been credited into Central Govt. Account.

(b) Besides, an amount of Rs.146.37 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 Government account will take place after completion of legal process.

(iv) Confiscation of Foreign Currency under FERA, 1973

(a) The amount of confiscated Foreign Currency of Rs.552.73 lakhs has been credited into Central Govt. Account.

(b) Besides, an amount of Rs.276.62 lakhs of Foreign Currency has been ordered to be confiscated consequent upon passing of Adjudication Orders. The confiscation of this amount and its credit into Central Government account will take place after completion of legal process.

(v) Confiscation of Indian Currency under FEMA, 1999

(a) The amount of confiscated Indian Currency of Rs.69.20 lakhs has been credited into Central Govt. Account.

(b) Besides, an amount of Rs.69.97 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 Government account will take place after completion of legal process.

(vi) Confiscation of Foreign Currency under FEMA, 1999

(a) The amount of confiscated Foreign Currency of Rs.87.39 lakhs has been credited into Central Govt. Account.

(b) Besides, an amount of Rs.95.45 lakhs of Foreign Currency has been ordered to be confiscated consequent upon passing of Adjudication Orders. The confiscation of this amount and its credit into Central Government account will take place after completion of legal process.

(vii) Disposal of Enquiries under FEMA, 1999

1493 enquiries have been disposed of.

(viii) Disposal of Prosecution Cases under FERA, 1973

Number of prosecution cases disposed of was 168.

The statistical information relating to various activities of the Directorate during financial year 2004-05(upto Nov.) is given below.

2004-05

(Upto November 2004)

A.	**SEARCHES & SEIZURES**			**FEMA**	
1.	Searches conducted			40	
2.	FE seized (Rs. in lakhs)			21.46	
3.	IC seized (Rs.in lakhs)			113.19	
B.	**Investigation**				
1.	Initiated			889	
2.	Disposed			1493	
3.	Pending			7112	
4.	SCNs issued (Rs. in Crs.)			359	
5.	Amount involved in SCNs issued (Rs. in Crs.)			336717.37	
C.	**Adjudication**	**FERA**		**FEMA**	**Total**
1.	Cases Adjudicated	1983	+	367	2350
2.	Cases pending Adjudication	5073	+	620	5693
3.	Confiscation of Foreign Exchange (Rs. in lakhs)	276.62	+	95.45	372.07
4.	Confiscation of Indian Currency (Rs. in lakhs)	176.40	+	69.97	146.37
D.	**Penalties**				
1.	Imposed (Rs. in lakhs)	147406.65	+	14035.44	161442.09
2.	Realised (Rs. in lakhs)	1480.32	+	69.19	1549.51
3.	Pending	382798.46	+	14920.23	397718.69
E.	**COFEPOSA**				
1.	Orders issued	Nil	+	Nil	Nil
2.	Detained	02	+	04	06
F.	**Prosecutions**	**FERA**			
I.	Disposal	168			
	(i) Conviction	47			
	(ii) Acquittal	18			
	(iii) Discharge	20			
	(iv) Withdrawn	02			
	(v) Otherwise	81			
II.	Pending	4921			

Environmental Protection Initiatives

The Directorate has made endeavour 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 etc.

8. FINANCIAL INTELLIGENCE UNIT, INDIA (FIU-IND)

With a view to combating the menace of money-laundering activities and its effect on national/international security, drug trafficking, terrorist funding, etc. Government have issued orders for setting up of a Financial Intelligence Unit India (FIU-IND). It will be a multi-disciplinary unit for establishing links between suspicious or unusual financial transactions underlying criminal activities so as to prevent and combat money laundering and related crimes. The agency will coordinate and support efforts of national and international intelligence, investigation and enforcement agencies in pursuing the global efforts against money laundering and related crimes. It will also act as the central national agency responsible for receiving, processing, analyzing and disseminating information relating to suspect financial transactions to these agencies.

9. SET UP FOR FORFEITURE OF ILLEGALLY ACQUIRED PROPERTY

9.1 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, 1974 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.

9.2 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.

9.3 During the year 2004-2005 (upto October, 2004), the Competent Authorities forfeited property worth Rs 94.59 lakhs in 13 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 1995-1996 to 2004-2005 (upto October, 2004), are given in the Annexure.

9.4 In ATFP, during the period from 1st April 2004 to 31st December.2004, a total number of 11 Appeals and 54 Miscellaneous Petitions under SAFEMA (FOP) A, and 34 Appeals and 42 Miscellaneous Petitions under NDPSA, were filed. During the same period, 73 Appeals/Misc.Petitions were disposed of.

Annexure
(para 9.3)

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)*
1995-1996	172	64	1283	133	1222	137
1996-1997	112	35	599	74	479	53
1997-1998	133	75	997	67	813	205
1998-1999	491	81	923	119	714	85
1999-2000	933	115	5256	137	2199	303
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*	1275	147	2139.82	13	94.59	38.23

**upto October, 2004*

10. SALES TAX SECTION

10.1 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 level 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).

Central Sales Tax (CST) Act, 1956

10.2 Entry 92A of List I (Union List) empowers the Central Government to impose tax on inter-state sale of goods. Moreover, 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. Further, 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.

10.3 Vide Finance (No. 2) Act, 2004, the following amendments were carried out in the Central Sales Tax Act, 1956:

a) On the directions of Hon'ble Supreme Court, Chapter VI of the CST Act, 1956, viz. "Authority to Settle Disputes in the Course of Inter-State Trade or Commerce" was amended, in order to streamline/streamline the provisions.

b) Section 8 of the CST Act was amended in order to extend the benefit of exemption of Central Sales Tax to units operating in Special Economic Zones (SEZs) for the purpose of setting up, operation and maintenance of such units. Moreover, the benefit of exemption from Central Sales Tax was extended to developers of Special Economic Zones for the purpose of development, operation and maintenance of such Special Economic Zones.

State Level Value Added Tax (VAT)

10.4 Introduction of State Level VAT is the most significant tax reform measure at State level. The process of debate and discussion for introduction of State level VAT started in 1994, but concrete decision to introduce VAT, replacing the existing Sales Tax systems of the States, was taken in the Conference of the Chief Ministers of the States/UTs, held on 16 Nov. 1999. This was reiterated in the subsequent meetings of the Chief Ministers held on 22 June 2000 and 05 July 2001. An Empowered Committee of State Finance Ministers was also constituted in July 2000, inter-alia, to monitor the process of introduction of VAT. In the meeting of the Empowered Committee held on 18 June 2004, a broad consensus was arrived at amongst the States to introduce VAT with effect from 01 April 2005. Further necessary steps are being taken in this direction.

10.5 The proposed VAT is a multi-point destination-based system of taxation, with tax being levied on value addition at each stage of transaction in the production/ distribution chain. Some other salient features of the VAT design being adopted for the State Level VAT are as follows:

a) Uniform Schedules of Rates of VAT for all States – with some flexibility in respect of goods of local importance. This will make the tax systems simple and will prevent unhealthy tax competition among States.

b) Provision of input tax credit, which would help in preventing cascading (tax on tax).

c) Provision of self-assessment by dealers, along with threshold limit upto Rs. 5 lacs for registration of dealers under VAT and of composition of tax liability upto turnover limit of Rs. 40 lacs. These measures would help in preventing harassment of dealers.

d) Zero rating of exports, which would increase the competitiveness of Indian exports.

10.6 Since sales tax/ VAT is a State subject, the Central Government is playing the role of a facilitator for successful implementation of this significant reform measure. Towards this end, a Committee of Technical Experts has also been constituted to work closely with the State Governments. The Central Government has already finalized a formula, in consultation with the States, for providing compensation to them, during first three years, for any loss on account of introduction of VAT. This has been done to provide a measure of comfort to the States, in the light of the apprehensions of revenue loss expressed by them, although the international experience shows that VAT is revenue-enhancing. The Central Government is also providing technical and financial support to the States for VAT computerization, publicity and awareness, training and other related aspects.

Service Tax

10.7 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 50% of the country's Gross Domestic Product. Taxation of services in India was started through the Union Budget 1994-95 when it was levied @5%, on 3 specific services, namely, stock-broking, general insurance and telephone services. 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 71 services and the rate of tax has gone up to 10% (plus education cess).

10.8 The need for reforms in domestic trade tax had been engaging the attention of the Government of India, for some time. In recognition of the fact that the Service Tax is going to be a major source of tax revenues for the Central/ State Governments 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. Through this Amendment, the following changes have been introduced:

a) Insertion of a new Entry 92-C "Tax on Services" in the Union List (List I) in the Seventh Schedule of the Constitution of India. This amendment now gives specific power to the Union Government to levy "Tax of Services".
b) Insertion of a new Article 268A in the Constitution of India, which provides that the tax on services shall be levied by the Govt. of India and shall be collected and appropriated by the Govt. of India and the States, in accordance with such principles of collection and appropriation as may be formulated by Parliament, by law.
c) Amendment of Article 270 to exclude Article 268A from the scope of the provisions of Article 270, regarding devolution of funds to States as per recommendations of the Finance Commission.

10.9 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. Accordingly, a Draft Service Tax Bill was prepared. In February 2004, the salient features of the Draft Service Tax Bill were circulated to States/ UTs, seeking their comments. Most of the States/UTs furnished their comments on the Draft Service Tax Bill. In order to discuss and finalise the matter, the Union Finance Minister had convened a meeting of the Finance Ministers of all the States/ UTs, on 30 November 2004. During the meeting, a wide variety of views were received from the States/ UTs and it was decided that the minutes of the meeting would be forwarded to the States/UTs, so that the States can reflect on how other State Governments are reflecting and may have internal consultations within the States, after which the States may also like to modify their views. Accordingly, minutes of the Conference have been issued to the States/UTs. Further action will be taken on receipt of the views from the States/ UTs.

Additional Duties of Excise

10.10 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 Chief Ministers and the Empowered Committee of the State Finance Ministers, 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 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 come into force as the notification to this effect has not yet been issued. The Empowered Committee of State Finance Ministers, in its meeting held on 20th October, 2003, decided that the question of levying of Sales Tax on ADE items is linked to introduction of VAT and no pre-emptive action would be desirable. The issue of notification to enforce the Amendment was kept in abeyance pending introduction of VAT. Moreover, recently in the Meeting of EC held on 2nd November 2004, it was unanimously resolved that there would be no change in the ADE in the first year of introduction of VAT by States/ UT i.e. during 2005-06.

Indian Stamp Act, 1899

10.11 Under article 246 of the Constitution of India, stamp duties on documents specified in Entry 91 of the Union List (viz. Bills of exchange, cheques, promissory notes, bills of lading, letters of credit, policies of insurance, transfer of shares, debentures, proxies and receipts) are levied by the Union, but under Article 268, each State, in which these are levied, collects and retain the proceeds (except in the case of Union Territories in which case the proceeds form part of the Consolidated Fund of India). At present, duty is levied on all these documents except cheques. Stamp duties on documents other than those mentioned above are levied and collected by the States by virtue of the legislative Entry 63 in the State List in the Seventh Schedule of the Constitution in India. Provisions other than those relating to rates of duty (which fall within the scope of Entry 91 of the Union List and entry 63 of the State List mentioned above) fall within the legislative power of both the Union and the States under Entry 44 of the Concurrent List in the Seventh Schedule, which reads as "Stamp duties other than duties or fees collected by means of judicial stamps, but not including rates of stamp duty". Thus, Parliament's legislative power extends to (a) Rates of stamp duty on documents mentioned in Entry 91 of List-I and (b) Machinery provisions in respect of all the documents.

10.12. The Indian Stamp Act, 1899 is a fiscal statute laying down the law relating to tax levied in the form of stamps on instruments recording transactions. As Parliament's legislative power also extends to machinery provisions in respect of all the documents, vide Finance (No. 2) Act, 2004, Section 2(26) of the Indian Stamp Act, 1899 has been inserted to provide definition of "Stamp" in the said Act, in such a way that the State Governments have been empowered to collect stamp duty through alternative modes of payment other than stamps/ stamp papers. Similarly, Section 9(1)(b) of the Indian Stamp Act has been amended to provide for consolidation of Stamp Duties in respect of "policy of insurance". Moreover, Article 53 of the Indian Stamp Act, 1899 has been also been amended and threshold above which stamp duty is charged on "Receipt" has been enhanced from 'Five Hundred Rupees' to `Five Thousand Rupees'. As a result of this amendment, no revenue stamp would be required to be affixed in case of "Receipt" the value of which is upto Five Thousand Rupees.

11. INTEGRATED FINANCE UNIT
Organisational Structure

11.1 The Integrated Finance Division consists of three Units dealing with Finance and one Unit viz. Internal Work Study Unit (IWSU).

Activities of the Integrated Finance Unit

11.2 All expenditure and financial proposals from Department of Revenue, including its attached offices i.e. Central Bureau of Narcotics, Chief Controller of Factories, Central Economic Intelligence Bureau, 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 (CBEC) & Central Board of Direct Taxes (CBDT), were analysed and disposed of. Various expenditure and financial proposals in Finance Division were scrutinized and disposed of as detailed below: -

(a) Proposals for creation of posts, construction/purchase/hiring of offices as well as residential accommodation for the field formations of CBEC & CBDT and their attached offices.
(b) Proposals for deputation abroad of officers of the Deptt. and its field offices.
(c) Modernization of the Department of Revenue and its field offices which includes Government Opium & Alkaloid Factories at Neemuch & Ghazipur.
(d) Proposals relating to Comprehensive Computerisation of Customs & Central Excise formations and Income Tax field formations.
(e) Proposals relating to grant-in-aid in the case of National Institute of Public Finance & Policy and Central Revenue Sports Board.

11.3 The expenditure budget of Department of Revenue-Demand No.42, Direct Taxes Demand No.43, Indirect Taxes-Demand No.44 was prepared and consolidated. The summarised detail of all the grants is as follows:-

(Rs. In crores)

			2004-05 (B.E.)	2004-05 (R.E)
(i)	Demand No.42-	Revenue	391.64	404.06
	Department of Revenue	Capital	5.05	5.05
	Total		396.69	409.11
(ii)	Demand No.43-	Revenue	1145.98	1169.93
	Direct Taxes	Capital	102.00	55.07
	Total		1247.98	1225.00
(iii)	Demand No.44-	Revenue	1263.10	1325.62
	Indirect Taxes	Capital	198.83	51.40
	Total		**1461.93**	**1377.02**

11.4. Watching the formulation of schemes of important expenditure proposals from their initial stage and also watching the settlement of audit objections, inspection reports, draft audit paragraphs, reports of PAC /Standing Committee, Coordination work regarding their meetings.

11.5. Follow-up action on Govt.'s economy instructions and implementation thereof, advising the Administrative Divisions on financial matters.

Activities of Internal Work Study Unit

11.6 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 2004-2005, continued its efforts to improve the quality of administration on the organizations under the Department of Revenue. The Unit continued to liaise with the Deptt. of AR&PG, SIU, D/o Expenditure and the National Archives of India on the following:-

(a) Compilation and consolidation of orders/instructions;
(b) Review of rules & Regulations and Manuals;
(c) Review of periodical reports and returns;
(d) Records management;
(e) Monitoring the progress of disposal of pending cases;
(f) Annual Inspection of the sections in the Department of Revenue.
(g) Work-study of attached and subordinate offices of the Department of Revenue and implementation of SIU reports.

11.7 The reports on compilation/consolidation of orders/instructions have revealed that 34 Acts pertaining to Department of Revenue, which had lost their relevance and were no longer functional, were listed out for repeal. All such Acts have been examined in the Department. As a result, 22 Acts have been repealed, 11 have been retained and, in regard to one Act (Revenue Recovery Act, 1840), a Task Force has been constituted to suggest suitable amendments.

11.8 In addition to the above, the proposals, as detailed below, were also scrutinized in the Unit: -

(i) Cases for condemnation/replacement purchase of vehicles pertaining to field formations of CBEC.
(ii) Cases for creation /continuation of posts on cost recovery basis pertaining to field formations of CBEC .

11.9 The IWSU has initiated special steps to expand the coverage of sections/branches of the Deptt. for the purpose of O&M inspections.

11.10 In order to keep a watch on pending communications received from V.I.Ps in Department of Revenue on various matters, IWSU has devised a system to streamline the pending cases where there is a heavy influx of V.I.P references in the Sections/Units. The progress of disposal of pending VIP references in the Department is regularly monitored in the Review Meetings, held frequently under the chairmanship of Additional Secretary (Revenue), with the Nodal Officers concerned in the Department. The pendency position of V.I.P. 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.

12. IMPLEMENTATION OF OFFICIAL LANGUAGE POLICY

12.1 The Department of Revenue has a full-fledged Official Language Division entrusted with the implementation of Official Language Act, 1963 and Rules made thereunder. 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 from English to Hindi and vice-versa is ensured by the Hindi Division.

12.2 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 2004-2005

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, 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

12.3 Since the extended tenure of the Joint Hindi Salahkar Samiti of the Department of Revenue and Department of Expenditure completed on 20th May, 2003, the proposal of Committee's reconstitution has been forwarded to Department of Official Language.

12.4 The meetings of the Official Language Implementation Committee were held at regular intervals. In the meetings members discussed the steps required to be taken for effective implementation of the Official Language Policy of the Union. A representative of the Ministry also attends the Official Language Implementation Committee meetings of the attached and subordinate offices situated in Delhi. 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 the year under report and they were encouraged to improve the use of Hindi in their official work.

Inspection by Committee of Parliament on Official Language

12.5 Offices of the D/o Revenue situated at Mumbai, Goa, Ooty, Daman, Surat and Mysore 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 their day-to-day work.

Hindi Day/Hindi Pakhwara

12.6 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 of the Ministry of Finance to do their maximum day-to-day work in Hindi.

12.7 Hindi Pakhwara was celebrated from 1st September, 2004 to 15th September, 2004. Various competitions like Hindi typing, Hindi shorthand, Hindi noting & drafting, Hindi dictation for group 'D' employees, Essay writing, Hindi Poem Recitation quiz competitions were organized. Those who secured first, second and third positions in these competitions were given cash prizes.

Hindi Workshop

12.8 Hindi workshops were organized during the year to remove hesitation of officers and employees of the department to do their work in Hindi. Two days Hindi workshop was organized in the month of October, 2004 for the officers of the department.

Hindi Schemes

12.9 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. The Department is running its own short term Rajbhasha Shield Yojna for its sections. The shield is given to the section which does the maximum and best work in Hindi during a specified period. A similar scheme is also being run for the attached/subordinate offices situated in Delhi. A cash award scheme is also being run for officers/employees of the Department for doing maximum official work in Hindi during a specified period.

12.10 To encourage creative & original writing in Hindi two incentive schemes run by the department for reviewing and writing original books in Hindi on subjects of 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

12.11 During the year 11 officers/employees who do not possess working knowledge of Hindi were nominated for training in Prabodh, Praveen and Pragya classes. Similarly 22 L.D.Cs and 24 Stenographers were nominated for training in Hindi typing and Hindi stenography respectively during the year under report.

13. NATIONAL COMMITTEE FOR PROMOTION OF SOCIAL & ECONOMIC WELFARE

13.1 In order to encourage investments in priority areas of socio-economic development, particularly keeping in view the upliftment of rural poor and urban dwellers, a tax incentive scheme was introduced by inserting Section 35AC in Income Tax Act, through the Finance Act, 1991. Under the scheme, contributions made by persons deriving income from business or profession to projects approved by the National Committee for Promotion of Social and Economic Welfare are fully deductible in the computation of total income. The Committee functions under the guidelines prescribed in the Income Tax Rules.

13.2 The National Committee, headed by Justice Shri P.N. Bhagwati, former Chief Justice of India, and comprising distinguished persons, was constituted by the Central Government. Its term was upto 1.1.1998. Thereafter, a new Committee under the Chairmanship of Justice Shri R.S. Pathak, former Chief Justice of India was constituted comprising distinguished persons, for a period of three years with effect from 02.01.1998. On expiry of its term, a new Committee under the Chairmanship of Justice Shri R.S. Pathak, former Chief Justice of India and comprising distinguished persons, was constituted for a period of three years upto 21.05.2004. Thereafter, the Committee was reconstituted on 09.11.2004, under the Chairmanship of Justice Shri S.P.Bharucha, former Chief Jusitce of India.

13.3 The Committee has been meeting regularly and approving eligible projects for the purpose of Section 35 AC of Income Tax Act. The Central Government notifies the eligible projects on the recommendation of the Committee.

13.4 The year wise break-up of notified project is as under: -

Financial Year	Number of Notified Projects
1992-1993	109
1993-1994	97
1994-1995	98
1995-1996	99
1996-1997	103
1997-1998	101
1998-1999	76
1999-2000	68
2000-2001	49
2001-2002	41
2002-2003	52
2003-2004	98
2004-2005 (upto 24.01.2005)	105

14. APPELLATE TRIBUNAL FOR FORFEITED PROPERTY

14.1 The Appellate Tribunal for Forfeited Property was established under the Smuggler and Foreign Exchange Manipulators (Forfeiture of Property) Act 1976 (SAFEM(FOP)A) and commenced functioning in the year 1977. The Tribunal was also constituted as the Appellate Tribunal under the Narcotics Drugs and Psychotropic Substances Act 1985(NDPSA) after is amendment in the year 1989, with almost identical provisions relating to forfeiture of illegally acquired property.

14.2 The Tribunal adjudicates matters and appeals filed against the orders passed by the Competent Authorities for forfeiture of property acquired through illegal means by the persons convicted or detained under the Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974, Customs Act, 1962, Foreign Exchange Regulations Act, 1973 or NDPS Act, 1985.

14.3 It is a national Tribunal and a Chairman (generally a

Judge of the High Court or Supreme Court) and two Members (generally of the level of Additional Secretary or Special Secretary to the Government of India) constitute the Tribunal. The powers and functions of the Tribunal are exercised by "Benches" constituted by the Chairman of the Tribunal.

14.4 In ATFP, during the period from 1st April 2004 to 31st December.2004, a total number of 11 Appeals and 73 Miscellaneous Petitions under SAFEMA (FOP) A, and 34 Appeals and 42 Miscellaneous Petitions under NDPSA, were filed. During the same period, 73 Appeals/Misc.Petitions were disposed of.

15. CUSTOMS, EXCISE AND SERVICE TAX APPELLATE TRIBUNAL

15.1 This Tribunal was created to provide an independent forum to hear the appeals against orders and decisions passed under the Customs Act 1962, Central Excise Act 1944, as amended, from time to time and Gold (Control) Act 1968. The last named Act has since been repealed. The Tribunal is also having appellate jurisdiction in Anti-Dumping matters, and the Special Bench, headed by the President of the Tribunal, hears the appeals against orders passed by the Designated Authority in the Ministry of Commerce. The appeals under the Service Tax are also heard by the Tribunal, and, accordingly, the Tribunal has now been renamed as "Customs, Excise & Service Tax Appellate Tribunal (CESTAT) ".

15.2 There are four benches located in Delhi, three in Mumbai and one each at Kolkata, Bangalore and Chennai. Each bench consists of a Judicial Member and a Technical Member. To expedite disposal of smaller cases, a bench of Single Member is constituted to deal with these such cases. The Tribunal is the Appellate Authority on matters relating to classification and valuation, with the appeals lying to the Supreme Court in these matters.

15.3 The sanctioned strength of the Members (including the President and two Vice-Presidents) is 21. At present, the working strength is 19. Three posts of Members and the post of President are lying vacant.

15.4 As a result of an amendment by the Finance Act, 1995, the distinction between the Special Benches, which were earlier empowered to hear matters relating to valuation and classification of the goods, and were located in Delhi, was done away with, and consequently, any Bench of two or more Members is competent to hear all matters, including appeals which were earlier being heard only in Delhi. This has provided, thereby, saving time and expenses.

15.5 In spite of various constraints, including vacancies at the level of Members, the disposal of the appeals by the Tribunal has increased as compared to last financial year. A comparative statement showing the institutions and disposals of cases is given below:

Year	Institutions	Disposal
2003-2004	17331	15594
2004-2005(upto Nov.04)	12346	10332

16. INCOME TAX SETTLEMENT COMMISSION

16.1 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.

16.2 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.

16.3 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.

16.4 Each settlement application involves computation of income/wealth for a number of assessment years: The statistics of pendency/disposal for the period 2004-2005 (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 normal course, these cases would have involved protracted litigation, possibly up to the Supreme Court level.

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).
1990-91	716	1367	2083	455	-	2538	353	171	445	616	641	1281	1922
1991-92	641	1281	1922	568	+3	2493	318	93	530	623	798	1072	1870
1992-93	798	1072	1870	665	-	2535	550	48	393	441	865	1229	2094
1993-94	865	1229	2094	730	-	2824	670	100	355	455	825	1544	2369
1994-95	825	1544	2369	570	-	2939	561	119	390	509	715	1715	2430
1995-96	715	1715	2430	557	-	2987	496	113	470	583	663	1741	2404
1996-97	663	1741	2404	520	-	2924	551	113	468	581	519	1824	2343
1997-98	519	1817	2336	385	-	2721	503	70	482	552	331	1838	2169
1998-99	336	1838	2174	274	1	2448	354	15	512	557	211	1681	1892
1999-2000	211	1681	1892	423	2	2317	278	27	465	492	329	1496	1825
2000-2001	329	1496	1825	469	-	2294	444	-22	330	352	330	1608	1938
2001-2002	330	1608	1938	671	-	2609	365	17	323	340	593	1650	2243
2002-2003	593	1650	2243	560	-	2803	521	55	218	273	577	1953	2530
2003-2004	577	1953	2530	491	-	3021	328	33	155	188	707	2126*	2833
2004-2005 (upto Jan.2005)	707	2119	2826	350	-	3176	215	129	149	278	713	2185	2898

17. CUSTOMS & CENTRAL EXCISE SETTLEMENT COMMISSION

17.1 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 9.6.1999. The Commission consists of Chairman, Vice-Chairman and Members and functions within the Department of Revenue. The Principal Bench of the Commission is located at Delhi and Additional Benches at Mumbai, Chennai and Kolkata.

17.2 The Customs & Central Excise Settlement Commission is a forum for quick resolution of tax disputes and it is purely voluntary for the eligible persons to subject to its jurisdiction, thereby avoiding protracted litigation. The time, cost and energy saved both by the department and assessee can be utilized instead of involving in long drawn litigation. Revenue, as legally due is also realized quickly. The legal provisions are contained in Chapter V of the central Excise Act, 1944 and Chapter XIVA of the Customs Act, 1962. The Commission is empowered to grant immunities, from payment of penalty, fine and interest under the respective acts and is also empowered to grant immunity form prosecution under the above mentioned acts and any other Central Act. The applicant is, however, required to make full and true disclosure of duty liability to be entitled to the immunities. The order of settlement is conclusive.

17.3 Upto 31.03.04, 1796 applications have been admitted. A total of 812 applications have been filed from 01.04.04 to 31.12.04. The details of applications filed in the Settlement Commission upto last year and during the year upto 31.12.04 is shown in the Annexure.

Annexure
(para 17.3)

A. ADMISSION STAGE

(Rs in crores)

Period	No of applications	Show cause notice amount	Admitted amount	Amount realised
I Applications filed				
From 1.1.2000 to 31.3.2004	2343	769.48	554.95	
From 1.4.2004 to 31.12.2004	812	199.65	118.26	
II Applications Not Admitted (Rejected)				
From 1.1.2000 to 31.3.2004	275	99.63	38.57	
From 1.4.2004 to 31.12.2004	58	14.56	9.00	
III Applications Admitted				
From 1.1.2004 to 31.3.2004	1796	626.60	473.77	380.63
From 1.4. 2004 to 31.12.2004	529	107.05	99.58	39.21

B. FINAL ORDERS

(Rs in crores)

Period	No of applications	Show cause amount	Admitted amount	Duty realised as per admission order	Duty paid
Application admitted but rejected later					
From 1.1.2000 to 31.3.2004	93	62	45.73	46.29	23.64
From 1.4. 2004 to 31.12.2004	16	12.60	11.84	12.43	4.57

C. SETTLEMENT ORDERS

(Rs in crores)

Period	No of application	Show scause	Admitted amount notice amount	Duty held	Fine payable payable	Personal penalty
From 1.1.2000 to 31.3.2004	1163	388.59	314.34	346.60	0.77	0.64
From 1.4. 2004 to 31.12.2004	719	112.19	92.13	91.16	0.00	0.10

18. AUTHORITY FOR ADVANCE RULINGS (INCOME TAX)

18,1 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 with effect from 01.6.1993. The Authority gives binding rulings on the taxation issues raised by Foreign Companies and non-resident Indians, relating to completed, on-going or proposed transactions. It also gives rulings in the case of P.S.Us subject to necessary clearance.

18.2 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 International and National Conferences such as the IFA Conference in Vienna, Jaipur and FICCI Conference in Delhi.

Organisational Set-up

18.3 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

18.4 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.

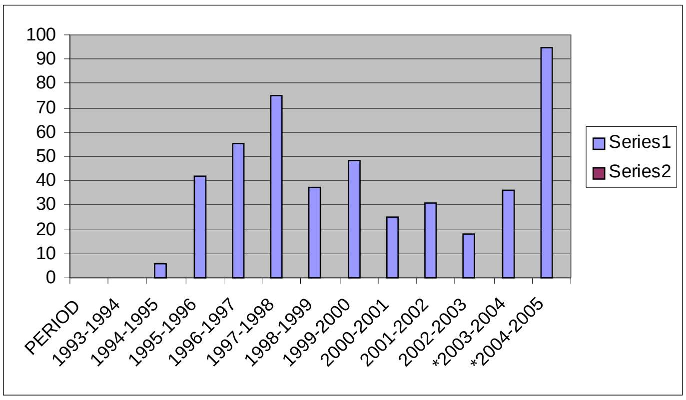
Performance

18.5 The Authority has so far pronounced rulings in more than 400 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.

18.6 Statistical information about the performance of the Authority since inception till 31.12.2004 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	20	82	58	24

* *Till 1994 average disposal of applications was 34 per annum. This year since the set-up of the new team under the Chairmanship of Hon'ble Justice Quadri, 95 rulings have been pronounced over a period of 10 months. 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 of Authority For Advance Rulings in the Commerce and Industry Sectors and NRIs.

18.7 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'ble Chairman AAR by Secretary (AAR) during the last one year.

a. A power point presentation was given in August 2004 at Indian Merchants Chamber, and the International Taxation Committee of AIFTP, Mumbai.
b. A power point presentation on a comparative study of the Advance Rulings systems in different countries in Jaipur in September 2004 at the seminar on International Taxation held by the International Fiscal Association.
c. In the International Taxation Conference in December, 2004 by Bombay Management Association and OECD a session was exclusively addressed to the issues and cases before the AAR.
d. A session on Transfer Pricing at a conference by FICCI in Delhi wherein number of Cases of AAR discussed.
e. At Pravasi Bhartiya Diwas Conference on 7th January 2005 the Authority was represented in the Indian Panelists.
f. Further interaction with members of the Industry initiated recently at

India Economic Enclave 2005 by CNBC TV18 in 13th January 2005.

g. The Authority maintains appropriate liaison with various organizations such as International Fiscal Organisation, CII, FICCI, Assoc ham, etc. The Authority ensures prompt response to various queries received on its e-mail.

Representation of the AAR in International Tax Conferences relating to DTAAs, Advance Ruling etc.

18.8 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 and 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.

18.9 The 58th Congress of the International Fiscal Association was organized at Vienna from 5th September 2004 to 10th September 2004. The Hon'ble Chairman, Authority for Advance Rulings participated in that meeting. In the same meeting the ruling of Authority for Advance Rulings (India) in the case of UAE Exchange Centre LLC which was pronounced in May 2004 was a focus of discussion.

Implication of Recent Rulings of AAR

18.10 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.

18.11 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 share brokers, 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.

18.12 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.

18.13 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.

18.14 The ruling in the case of Emirates Fertilizer Trading Company 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 capital gains from alienation of shares in Indian companies held by the applicant, a resident of UAE, was found not taxable in India. Similarly, the individual is not taxed in UAE and therefore escapes taxation altogether.

Audit Objections

18.15 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.

19. AUTHORITY FOR ADVANCE RULINGS (CUSTOMS & CENTRAL EXCISE)

19.1 Union Minister of Finance had in his Budget speech of 1998-99 proposed setting up of an Authority for Advance Rulings in order to assure foreign investors, in advance, of their likely indirect tax liability. This was followed up by introducing the requisite legislation in the Finance Bill of 1999-2000, so that the Authority could pronounce "binding rulings on important issues" to enable intending investors to have a clear-cut indication of their indirect tax liability in advance. Accordingly, the Authority for Advance Rulings, Customs & Central Excise was constituted with effect from. 24th April 2002 vide Notification No. 16/2002-Ad.IC published in the Gazette dated 24th April 2002.

Functions

19.2 The Authority for Advance Rulings has been constituted under Section 28F of the Customs Act, 1962 to facilitate non-resident investors including a wholly owned subsidiary Indian Company of which the holding company is a foreign company in ascertaining their indirect tax liability in terms of Customs, Central Excise & Service Tax Law prior to undertaking their investment venture. Scheme of Advance Rulings has been incorporated in Chapter VB of the Customs Act, 1962, Chapter IIIA the Central Excise Act, 1944 and Chapter VA of the Finance Act, 1994. Advance Rulings can be issued in respect of Classification of goods under the Customs Tariff Act, 1975, Central Excise Tariff Act, 1985 and of taxable services under Chapter V of the Finance Act, 1994 (Service Tax); Principles of Valuation under the Customs Act, 1962 and the Central Excise Act, 1944; Valuation of taxable services for charging Service Tax under the Finance Act, 1994; 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; Admissibility of input-tax credit under Central Excise Law (CENVAT) and Admissibility of Credit of Service Tax under Chapter VA of the Finance Act, 1994.

19.3 An Advance Ruling is given by a three- member- bench, headed by a retired judge of Supreme Court. The other two members are of the Additional Secretary level; namely one from the Indian Revenue Services (Customs & Central Excise) who is qualified to be member of the Central Board of Excise & Customs and the other an officer of the Indian Legal Service who is, or is qualified to be an Additional Secretary to the Govt. of India. Office of the Authority is located at Hotel Samrat, New Delhi.

Performance & Achievements

19.4 The Authority became functional in the financial year 2002-03 only. The Customs (Advance Rulings) Rules, 2002 and Central Excise (Advance Rulings) Rules 2002 were notified vide Notifications No 55/2002-Cus(N.T.) and 28/2002- Central Excise (N.T) both dated 23.8.2002. Service Tax (Advance Rulings) Rules have also been notified vide Notfification. No. 17/2003- S.Tax (N.T.) dated 23.7.03. The Authority for Advance Rulings (Procedural) Rules, 2003 have been notified vide Notfn. No. 1/2003 dated 21.3.2003.

19.5 During the period 1st January, 2004 to 31st December, 2004 drafting of rules & procedures and printing of brochures (thoroughly revised and updated) for publicizing the setting up of the Authority was undertaken and sent to trade associations, our Embassies/High Commissions/Missions abroad leading advocates/ consultants of Customs & Central Excise, leading law firms/ CA firms, all Chief Commissioner's and Commissioner's. Drafting of a comprehensive Manual detailing the scope, nature and functioning of the Authority was also undertaken. The printing of the manual is under process. In addition to this, during the period under review, 18 applications were received seeking pronouncement of Advance Ruling. Out of these 15 applications have already been disposed off. Processing of the other applications is under active consideration as on 31st December 2004. During the year the web site of the Authority was also launched. The address of the web site is www.cbec.gov.in/cae/aar.htm. It contains all the relevant provisions of the Authority for Advance Ruling's and all the orders and rulings of the Authority.

20. E-GOVERNANCE ACTIVITIES

1. Department of Revenue (Headquarters)

The Department of Revenue has been provided with nearly 450 computers with necessary software to enable the offices to cover all the areas of work. Bilingual software (Akshar for Windows) have been provided to all Sections/Offices working in Hindi. The proposal of providing power backup to Local Area Network with the help of NIC and CPWD is under process.

2. Central Board of Direct Taxes

The Income Tax Department adopted a 'Vision 2005' document (e-delivery of taxpayer services) laying down its vision for the year 2005. The document outlined the mission of the department as – 'to promote compliance with direct tax laws through -

* taxpayer service, and
* strict enforcement –

with a view to realize maximum resources for the nation'.

Quality Taxpayer Service: The department identified 7 areas for providing high quality taxpayer services.

Dissemination of Tax Information on web: The Department has set up website www.incometaxindia.gov.in. It provides information of income tax laws, procedures, circulars, notifications, jurisdictions, as well as facilities to down load various forms, challans and return preparation software etc. The average number of visitors per month to this site exceeds 40 lakh.

PAN related Services: The department has outsourced part process relating to receipt of PAN applications and printing / dispatch of PAN cards to M/s UTI Investors Services Limited from July 2003 and to M/s National Securities Depository Limited from June 2004. Facilities relating to handling of grievances in respect of PAN applications and tracking status of PAN applications have also been introduced from June 2004. Facilities for 'Tatkal' allotment of PAN through e-filing of PAN applications; and web query for ascertaining/confirming PAN have been added. During Financial Year 2003-04, 44.60 lakh PAN were allotted. The number of PAN allotted during the current year up to 31.12.2004 is 49.6 lakh. Total PAN allotted up to 31.12.2004 is 3.69 crore. The average time for allotment of PAN has come down to about 15 working days.

Online preparation of returns of income: A free software for online preparation of returns of income by taxpayers not having business income has been provided through the website.

e-filing of returns of income: A pilot scheme for electronic filing of returns of income was introduced in financial year 2003-04. Notifications have been issued on 30.9.04 to further enhance the scheme from the current financial year to allow Chartered Accountants and tax advocates to act as e-intermediaries. M/s NSDL have been appointed as the Registrar. Registration of e-intermediaries has opened.

Faster Processing of Returns and Issue of Refunds: A decision has been taken to process all returns on computers within 4 months of filing. During F.Y. 2003-04, 2.04 crore returns of income were processed on computers-out of which 1.07 crore were at the 60 stations on network, and remaining at other stations. As a result 51.66 lakh refund vouchers were issued for an amount 25,836 crore during financial year 2003-04. The comparative position over last 2 years is as under:

Financial Year	Refund cheques issued (in lakh)	Amount refunded (Rs. Crores)
2001-02	26.72	17,300
2002-03	39.87	22,676
2003-04	56.66	25,836

(Source: DIT(Systems)

Faster processing of returns and refund has resulted in improving turn around time, better taxpayer services, and lower interest outgo on interest on refunds. Computerised processing of returns has enabled, creation of databases for selection of cases for scrutiny, identification of stop filers and supporting data for decision making on tax policy issues.

Electronic Credit of Refunds: Facility for electronic credit of refunds directly to the bank account of taxpayers has been introduced in 12 cities for salaried taxpayers in March 2004.

Computer Assisted Selection of Cases for Scrutiny (CASS): A software for computer assisted selection of cases for scrutiny has been introduced from October, 2004 in 60 cities presently on network.

Electronic Filing of TDS Returns: A scheme for electronic filing of TDS returns was notified in September, 2003. It was made mandatory for corporate deductors to file their TDS returns on electronic format. Free TDS returns preparation software has been provided for generating e-TDS returns. Facilitation Centres have been set up in 218 cities for receipt of e-TDS returns. Particulars of electronic TDS returns received are as under:

Financial Year	e-TDS returns received	Deductee records included in e-TDS returns
2002-03	1,24,753	4,45,22,806
2003-04	3,10,716	7,43,46,405

Technology up-gradation: Following major technology upgradation project are under implementation:

Consolidation of 36 regional databases into single national database. This will enable following functionalities-

a. Any time anywhere computing
b. Jurisdiction free filing /processing;
c. All India data matching;
d. Centralised MIS reporting

National Data Centre: A National Data Centre with appropriate Business Continuity and Disaster Recovery site are being set up at Delhi, Mumbai and Chennai to house the national Database.

All India Virtual Private Network (VPN) is being set up to link all income tax offices across the country. Tender process for this work is at final stage of price negotiations.

New Initiatives for Financial Year 2004-05:

1	· Tracking status of PAN applications on internet · e-filing of PAN applications	Started
2	Setting up Call centre	Pilot started/ July '04
3	Electronic payment of taxes	Started/ October '04
4	e-filing of returns of income * through intermediaries * on internet under digital signature	January 2005
5	Grievance Redressal Machanism	January 2005

(Source: DIT(Systems)

Tax Information Network: As recommended by Task Force on Direct Taxes, a Tax Information Network (TIN) has been set up outside the Department. This is being hosted by National Securities Depository Limited (NSDL). This will be 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 to be filed under section 285 BA of Income Tax Act
(iv) Returned and assessed incomes coming from processing of returns on departmental application software.

Online Tax Accounting System (OLTAS): Online tax accounting system has become functional from 01.06.2004. Under this nearly 11,900 branches of 32 designated banks authorised to collect direct taxes will transmit information of tax payments online to the National Computer Centre of Income Tax Department through TIN on T+3 basis. The banks will also give a unique Challan Identification Number (CIN) on each challan which will be data captured by them in the information sent to TIN. For this purpose, procedure for tax payment has also been simplified by reducing the number of challans from 7 to 3, and by reducing the number of copies of challans required to be submitted from 4 to 1.

Quoting of PAN/ TAN on challans has been made mandatory w.e.f 1.1.2005. Pre-printed blank challans with PAN/TAN have been mailed to all corporate taxpayers, Firms and non-government deductors. Facility for downloading blank challans pre-printed with PAN of the taxpayer or TAN of the Deductor has been made available on the website.

The impact of these measures would be as under –

(i) Reduced data entry in the income tax department
(ii) Faster reporting of tax collection to the departmental officers, timely monitoring and follow up enabling higher collection;
(iii) Credit of pre-paid taxes on the basis of authenticated information
(iv) Dematerialisation of challans enabling paperless filing
(v) Lower cost of compliance on the part of taxpayers
(vi) Improved economic efficiency by elimination of paper work of nearly 7 crore sheets of A-4 size paper.
(vii) Improved cash flow management of direct taxes for Government.
(viii) Least or no interface with the public.

Computerisation of TDS functions: TIN will also enable computerization of TDS functions. Filing of TDS return on electronic format has been made compulsory for corporate deductors and Government deductors. For this purpose, the number of TDS returns form has been reduced from 19 to 4. TIN will also provide facility for digitization of paper TDS returns. The data of electronic and paper TDS returns received from TIN will be processed by the concerned Assessing Officers for identifying cases of short deduction, short deposit, late deduction/ late deposit etc. The information in respect of deductees available in TDS returns will be used by widening of taxbase using PAN as the key identifier.

In Phase –II facilities for Dematerialisation of TDS certificate will be set up through TIN. Necessary amendments to Income Tax Act have been made by Finance Act 2004 from 01.04.2005.

The basic impact of these changes would be as under -

(i) Elimination of TDS frauds;
(ii) Automated matching of TDS deducted and deposited in bank;

(iii) Matching of TDS deducted by the deductors against the credits claimed by deductees in their returns of income;
(iv) Demat of TDS certificates will enable paperless filing of TDS returns of income on internet;
(v) Reforms of legal and administrative systems relating to TDS will lead to elimination of revenue leakages, lower of cost of compliance and improved economic efficiency.

Annual Information Returns: Section 285 BA has been introduced in the Income Tax Act to enable filing of Annual Information Returns of high value financial transactions to be notified by Government. The categories of transactions have been notified by the Board on 1.12.04 under Rule 114E. The Annual Information Returns will be filed in pre-defined electronic format with TIN using PAN as the key identifier. 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.

3. Central Board of Excise & Customs

I – Customs process Automation:

Central Board of Excise and Customs (CBEC) is now successfully running the Indian Customs EDI systems (ICES) at 32 (23+9 new locations) locations. ICES, covers nearly 90% of India's International trade in terms of volume. A facility of on-line assessment of customs documents, namely, Bills of Entry and Shipping Bills under ICES, ensures transparency and enforces accountability. The EDI system in respect of import is capable of processing all kinds of Bills of Entry (except ad-hoc exemption orders), which covers about 95-99% of the import documents. On export side, the system can process all types of Shipping Bills (except reimport under claim of drawback for import duty). The coverage on export side is 95-99%. The new location are urgently being networked and by end of February will be connected to the ICEGATE facility. Extending the network for these new 12 locations is already on and by end of February, all locations will be networked.

The BPR of Customs Procedure: - The BPR of Customs Procedure was initiated through extensive in-house discussions, consultations with departmental officers, discussions on the project Advisory Group and discussions with Trading partners. The focus of the said project is to reduce transaction time through simplification of procedures and automation of processes. Following the approval of the Board, the BPR project has been streamed into four-sub project:

a) **Risk Management System (Import)** - Department is developing a Risk Management System which will enable the department to accord the facility of self assessment and waiver from examination to complaint trade while concentrating on consignments determined by the system as high risk. As it will be a system driven progaramme, it will considerable reduce discretion of the department officer. This measure will offer greater measure of facilitation to the compliant trade and will also contribute to reduction in dwell time of cargo and thus to transaction costs.
b) **Post Clearance Audit Program** – The development for the post clearance audit program has been taken by along with Risk Management System Project
c) **Client Assistance Programme** – Conceptual model for the programme was finalized.
d) **BPR of Import Processes**:
   · Study of current processes was done and Re-engineering of core Import processes was carried out.
   · Process models developed for core processes.
   · High-level data model for ICES 2 prepared.
   · Integration of Risk Management and Compliance Verification in the ICES 2 design.
   · Data model development and standardization completed.
   · A standardized Data Dictionary based on WCO and other international standards has been prepared.
e) **Export Risk Management System** – Like the RMS for import, a similar export module will also be installed in all ICES locations during the current year.

Exchange of Electronic Messages: In order to expedite the clearance of import and export cargo and provide a fool-proof paperless system of assessment and clearance, a framework has been created for electronic message-exchange between customs and their trading partners, such as Banks, Airlines, DGFT, DGCI&S, RBI, Shipping Lines, CHAs and export promotion agencies like AEPC, etc. The idea is to ultimately ensure that the end users are able conduct the complex transactions with various agencies concerning trade and transport by electronic means from their own offices. This is achieved by (i) extending the external interface of the agency internet for the end-users to transact business and (ii) the operating agencies to share real time data in the form of EDI messages that help real-time operations.

At present electronic messages are being exchanged between Custom Houses and custodians like Airports Authority of India, ports and CONCOR for facilitating cargo handling and logistics, with banks for duty payment, duty drawback and reconciliation of customs receipts, with the Directorate of Valuation for collating and disseminating valuation information, with DGRI for processing intelligence of live consignments and for investigation, with DGCIS for publication of Trade Statistics and for the Tax Research Unit for tax planning and administration.

ICEGATE and ICENET: CBEC has set up the ICEGATE, namely Indian Customs and Central Excise Gateway, and the ICENET, i.e., Indian Customs and Central Excise Network. The ICEGATE comprises of servers that carry out, among other things, the functions of processing and transport of electronic/EDI messages and provide security to the data support for the messaging operations, digital signatures etc. The ICENET is a network of all the 23 ICES locations, CBEC, Directorate of Valuation, NIC and DGRI.

The Customs E-commerce Gateway is functional at 23 Custom locations. Apart from its role in facilitating message exchange with agencies above, remote filing of import and export declarations by the importer exporter, CHAs have also started at 17 of these 24 locations. On an average, about 8000 import and export declarations are being filed daily using the ICEGATE facility. The facility will be extended to other Custom Houses in phases. Most of the airlines are filing their import and export manifests using the Gateway.

Certification Authority: Major progress has been achieved in setting up the certification authority for providing digital certificates to the importers and exporters for carrying out secure transactions over the network (ICEGATE). To ensure e-filing in a secure manner, CBEC has set up a Certifying Authority (CA) for issue of class –III digital signature certificates. The functioning of the Certificate Authority is governed by provisions of the Information Technology Act 2000. Recently the Certificate Authority (CA) of CBEC has been granted license to begin issue of digital signature certificates and this was officially inaugurated by issuing Digital Signature Certificate to Hon'ble Finance Minister. Digitally signed data communication between Customs and Director General Foreign Trade has also been initiated.

CBEC website (www.cbec.gov.in): CBEC website completed three years of operations recently. The number of hits per day (weekday) now exceeds 1,00,000. The website contains comprehensive information on all matters relating to customs, excise, service tax and other related issues. The Helpmail facility, which can be availed of, for seeking any clarification through e-mail, was extended to central excise also this year. Another feature in the form of 'whats new' has been added to the site.

E-Mail : E-mail facility has been provided to various offices of the CBEC and their field formations and sub-ordinate offices for electronic exchange of information. In Central Excise, e-mail is extensively used for departmental communication.

E-DECS, a departmental communication facility is now extensively used by the board and various directorates for mass communication and for getting reports and other information from the field formations. EDECS offers monitoring facility to the sender of the mail, which is essential in both these cases.

Data Warehouse Project: CBEC has taken steps for setting up a Customs Data Warehouse (CDW) to store data can be made available in a standard format for any enquiry/investigation or any analysis, reporting etc. The tender for selection of a vendor for implementing the first stage of Data Warehouse is underway.

II – Central Excise Computerization

E-governance as conceptualized for implementation in the Central Excise Department is through a citizen centric approach having two guiding principles: -

(i) Delivering services in ways that better reflect what people need or want from government

(ii) Making government and its services more accessible on an anywhere anytime basis. The easy accessibility of data and the attempt to make information easily available to the citizens in general and assessee in particular has been sought to be done through the following initiatives

(a) Placing data on a central server accessible through the Internet.

The thrust of Central Excise Computerization has been to build a good quality database of the profiles of Central Excise assesses as well as database for the monthly/quarterly returns filed by assesses. This is available on a central server accessible by all formations including the Board through the Internet. This database is inter-operable with the database of the Income Tax Department, as unique identifiers based on PAN number assigned by Income Tax Department have been used.

(b) Providing operational hardware and software to all formations.

All Central Excise Commissionerates and Divisions have been provided with the necessary hardware and software for effective functioning. They are also been given Internet facilities to access the data, which resides on the central server. Applications for the monitoring of Provisional assessments by senior management have been designed to ensure that issues involving the assessee are not lost focus of and are disposed off in a timely manner. As a facilitation measure to the assessees, a website link to a Web-enabled Central Excise Tariff Manual for Item-wise query is currently available. This provides assistance to new assessee's in matters of classification, and the aim is to ensure a uniform practice of classification, reducing disputes between the department and the taxpayer.

(c) Internet based system of registration

An application for the Internet based registration of Central Excise and Service Tax assesses is in place. When an assessee is to be registered, the Central Excise Officer concerned has to complete a form by accessing a central server through the Internet. The server allots a PAN based fifteen-digit registration number. In the process of registration itself a good quality database of the assessee is built up.

(d) E-filling of Returns

With a view to facilitate the trade and assesses, it was decided to create a facility to permit the Service Tax assesses an option for the on-line electronic filing of the Service Tax Return through the Internet. Assesses in all service categories have been granted this facility from the filing cycle beginning April 2003. A similar facility is available for Central Excise assesses from June 2004.

(e) Revenue Reconciliation

It is proposed to use computers for the reconciliation of payments of Excise Duty and Service Tax received in the focal point bank with payments declared by the assesses in the returns submitted by them to the department. Computerization will thus now help in reconciliation of duty payments by assesses with the actual receipts of duty paid in the bank. This coupled with e filing of returns will ensure a hassle free assessment regime for the assessee is actually paid and is credited to the account of the Government of India.

A "High-powered committee to facilitate online transmission of tax payment data from banks to Central Excise department", consisting of the Principal Chief Controller of Accounts, representatives from the RBI, Banks was set up under the chairmanship of Member –Central Excise, CBEC. The agenda was to look at the interface with banks, which receive the payment of duty and enabling them to electronically transmit these duty payment particulars to the Excise system. This facility is currently undergoing pilot testing at different Commissionerates.

(f) Development of Software for a Workflow based Application

The services of M/s Wipro have been hired through a tendering process for (i) Design, development, testing and implementation of software, (ii) Migration of data from legacy systems to the new system and (iii) Assistance in setting up a network for Central Excise and Service Tax. Work is currently underway for the development of software, procuring funds for the hardware and network as well as for issuing the tenders for the said hardware and software. The software is expected to be ready for roll out by September 2005.

The Customs and Central Excise Department, responsible for collection of over 65% Government Revenue, appreciates the need for e-governance to achieve quantum leap in efficiency as also to transform the present mindset of officers beset with the travesty of manual interface, into a computer – savvy, result oriented and professional one.

4. 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 Informatics Centre). While one is a Windows NT bases LAN comprising of 11 clients provided to all senior officers of Headquarters, the other two are UNIX basis 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 BASE 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 base 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 system 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-department 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.

The Enforcement Directorate has a web site under the head "Preventive Agencies fighting economic offences" under the main web-site 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 with the rules and regulations made there under. This web site has also been developed for us by the NIC.

5. Authority for Advance Rulings (C&CE)

The office of the Authority is fully equipped with latest computers, e-mail, internet facility etc. Queries received on our e-mail (aarcee@hub.nic.in) are promptly dealt with on line.

6. Authority for Advance Rulings (IT)

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 freely used for communication with applicants, Revenue Department and various organizations in Commerce & Industry.

7. Customs, Excise and Service Tax Appellate Tribunal (CESTAT)

The website of CESTAT was launched on 15.8.2003. Now the cause lists and rosters of all benches (including regional benches) are being displayed at the websites.

A proposal has been moved to computerize the working of CESTAT which will facilitate the filing of cases, judgments etc. he proposal has been forwarded to NIC for assessing the requirement of CESTAT.

8. Customs & Central Excise Settlement Commission

As part of e-governance, all the officers have been provided with computers. Local Area Networking has also been done at Principal Bench & other Benches of the Settlement Commission for easy access of data by all officers and staff.

9. Chief Controller of Factories

The Chief Controller of Factories Organisation is equipped with computers and is connected through Internet and have individual office wise email addresses to facilitate e-governance. Further, during the current year 2003-04, the opium sampling was handled by way of computers and challans were sent on email to District Opium Officers. During current upgradation a larger computer network is envisaged at the two production works, particularly for HRD & labour management issues.

21. CENTRAL REVENUE SPORTS BOARD (CRSB)

21.1 During the financial year 2004-05, the first meeting of CRSB was held on 25th July 2004 in which the Annual Working Plan and the Budget Estimate, proposing an expenditure of Rs.41 lakhs, was discussed and approved.

21.2 The CRSB received the sanctioned grant of Rs.33.75 lakhs in two instalments viz. Rs.25 lakhs + Rs.8.75 lakhs. For the remaining amount, it had to seek the assistance of the Performance Award Fund of the CBEC.

21.3 As in the last financial year, the Sub Zone/Zonal Sports and Cultural Meets were completed in November 2004. The All India Cultural Meet was held at Chennai from 23rd to 25th November, 2004, and the All India Sports Meet at Pune & Mumbai from 9th to 15th December, 2004.

22. GRIEVANCE REDRESSAL MACHINERY

1. Department of 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 as also to Department of Administrative Reforms & Public Grievances. The grievances relating to SCs/STs and OBCs 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 being made to attend to all grievances received on priority.

2. Central Board of Direct Taxes

The Income tax set up has elaborate grievances redressal machinery for the public as well as for staff, by way of Grievance cells at various levels:

- Central Grievance Cell
  (Under Chairperson, CBDT)
- Regional Grievance Cell
  (Under the CCIT/DGIT)
- Outstation Grievance Cell
  (Under Commissioners of Income- Tax/Directors of Income-tax)

Director (Hqrs) directly functions under the Chairman for Central Grievance Cell and also supervises all the grievance cells in the country. He also monitors the functioning of the Grievance Redressal Machinery so as to achieve quick redressal of grievances. All the grievances are registered in the computer, a registration number is given and grievances are controlled and monitored through computer. Besides, Director (Hqrs) has been vested with the authority to call for relevant records connected with grievances pending for more than three months and to take decision/action with the approval of the Head of the Department/ Chairman, CBDT. In addition to the grievances received directly from the assessees, grievances received through Prime Minister's Office, Department of AR&PG, Cabinet Secretariat & VIPs are also processed on priority basis. As desired by the Department of AR&PG, public grievances pertaining to Income Tax appearing in the newspapers are also attended to promptly. Besides, Director (Hqrs) also attends to grievances of the employees (both retired as well as in-service) of the Income-tax Department.

Performance/achievements for the period 1.1.2003 to 31.12.2003 is given as under:

Period	Number. of Grievances Received	Grievances Outstanding at the Beginning of the Quarter	Number of Grievances Disposed of
01.01.2003 to 31.12.2003	879	543	507

Performance/achievements for the period 1.1.2004 to 31.12.2004 is given as under:

Period	Number. of Grievances Received	Grievances Outstanding at the Beginning of the Quarter	Number of Grievances Disposed of
01.01.2004 to 31.12.2004	828	915	698

The statement regarding pendency, receipt and disposal of complaints received from PMO w.e.f 1.1.2003 to 31.12.2003 is as under:

Pendency as on 1.1.2003	Fresh Receipts	Total Pendency	Disposal	Pendency as on 31.12.2003
5	3	8	6	2

The statement regarding pendency, receipt and disposal of PMO complaints w.e.f 1.1.2004 to 31.12.2004 is as under:

Pendency as on 1.1.2004	Fresh Receipts	Total Pendency	Disposal	Pendency as on 31.12.2004
2	1	3	0	3

3. Central Board of Excise & Customs

The public grievance redressal machinery has been set up in the Central Board of Excise & Customs (CBEC) to deal with public and staff grievances and functions under the supervision of the Director (Adm.) in the CBEC, who has been nominated as the Grievance Officer. The CBEC and its field formations which comprise Central Excise and Customs Commissionerates all over the country have regular interface with a wide 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 offices 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 Grievance 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 meetings 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 meetings 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.

4. Customs & Central Excise Settlement Commission

As regards Public Grievance Machinery, the Commissioners at the Benches have been declared as the Public Grievances Officer for the respective Benches. No incident of public grievance has been reported so far.

5. Authority for Advance Rulings (C&CE)

The office has a full-fledged public grievance cell under the charge of Additional Commissioner. Thus, public grievances, if any, are immediately addressed.

6. Authority for Advance Rulings (IT)

No grievance petition as such has been received from the members of the public. However, a complaint box has been installed at the Reception for use by the members of the public and public grievance redressal system under the charge of the Secretary is in place.

7. Central Bureau of Narcotics

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 in cultivation season monthly.

1.	Unit Dy. Narcotics Commissioner	Chairman
2.	Unit Asstt. Narcotics Commissioner	Member
3.	Senior most District Opium Officer	Member
4.	Inspector Cultivation of Unit	Member
5.	Local MPs/MLAs	Member
6.	One Representative of Hqrs. Gwalior	Member
7.	Lambardar of Highest & Lowest Yield villages in each Division	Member
8.	Cultivators who tendered highest yield on all India/Unit basis (wherever applicable)	Member
9.	Any other cultivator to be decided by DNC	Member

8. Chief Controller of Factories

Public Grievances in the CCF's Organisation are dealt with instantly. More importantly, the labour grievances are dealt with expeditiously and the relations between the Management & workers has been harmonious and cordial, and the much improved redressal has led to higher morale & production. Women enjoy equal opportunity status and there is no gender bias/harassment in this Organisation. GOAW, Neemuch is managed by a lady General Manager.

23. ACTIVITIES UNDERTAKEN FOR DISABILITY SECTOR

1. Central Board of Direct Taxes

(a) Under the existing provisions contained in section 80U, a deduction of fifty thousand rupees is allowed to a resident individual who is a 'person with disability', as defined under the Persons with Disability (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995. A deduction of seventy-five thousand rupees is allowed where such individual is a 'person with severe disability' suffering from eighty percent or more of one or more disabilities.

(b) A similar deduction is allowed under section 80DD, to an individual or Hindu undivided family, resident in India, for incurring any expenditure for the medical treatment, training and rehabilitation in respect of a dependent being a 'person with disability' or severe disability as defined under the Persons with Disability (Equal Opportunities, Protection of Rights and Full Participation) Act, 1995.

(c) The above benefits under section 80U and 80DD have been extended to persons suffering from autism, cerebral palsy and multiple disability, as referred to in the National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999.

2. Central Board of Excise & Customs

During the financial year from 01.4.2004 to 31.12.2004, financial assistance amounting to Rs.2, 50,000/- was sanctioned in one case for purchase of artificial limb.

3. Authority for Advance Rulings (IT)

The authority does not have its own cadre and all the officials except Group 'D' have been posted in this Authority on deputation basis. Proper care is taken to ensure implementation of requirement of reservation of vacancies for disabled persons as per rules.

24. GENDER ISSUES/EMPOWERMENT OF WOMEN

1. Central Board of Excise & Customs

During the period from 01.04.2004 to 31.12.2004, the following amounts were sanctioned as financial assistance/ex-gratia financial assistance and ex-gratia financial reward as a welfare measure for women officials/families of the officers who expired in service and to eminent sports women of the Department :-

(a) Rs.2,18,000/- as financial assistance to Central Excise and Customs Commissionerate, Madurai for providing crèche facilities for the benefit of employed women of the Commissionerate.

(b) Rs.57,300/- as financial assistance to Central Excise and Customs Commissionerate, Coimbatore for providing crèche facilities for the benefit of employed women of the Commissionerate.

(c) Rs.80,000/- as financial assistance to Women's Welfare Association, Customs and Central Excise, Customs House, Cochin.

(d) Rs.5,00,000/- as cash award to Ms. Anju B. George, Preventive Officer, Chennai Customs Commissionerate for getting Padamshree Award.

(e) Rs.11,50,000/- as ex-gratia financial assistance in twelve cases to wives of the employees who died while in service, on consideration of their pathetic financial condition.

(f) Rs.3,50,000/- as financial assistance to the wife of late Shri S.K. Anjana, Inspector, Central Excise and Customs, Vadodara-I being the expenses incurred on her and family's treatment as a special case.

2. Central Board of Direct Taxes

No case of gender discrimination or harassment of women at their work place has come to the notice of the Board. National Academy of Direct Taxes, Nagpur and the Regional Training Institutes coming under it, however, have been conducting seminars to sensitise the officers regarding various gender issues with a view to create harmonious and congenial environment at work place and to develop leadership in the Department for handling the issues involved in management of gender diversity carefully and effectively.

3. Customs & Central Excise Settlement Commission

As regards, Gender issues, it may be mentioned that the Settlement Commission is a quasi-judicial body dealing with settlement of disputes between the trade and the Department of Central Excise & Customs and therefore, we have neither initiated any new schemes nor any resources are available for utilization towards any activities connected with women and gender related issues.

4. Authority for Advance Rulings (IT)

The Organisational set up of the Authority is very small and as such has no specified schemes/activities or resources available for any policy on women or gender related issues. However, instructions of the Govt. of India on these issues as applicable to the Authority are being followed.

5. Customs, Excise and Service Tax Appellate Tribunal (CESTAT)

Out of the total sanctioned strength of 346, the office has 36 ladies (in all grades) who have been given a separate common room for their rest and recreation.

25. DEVELOPMENT OF NORTH EASTERN REGION

Central Board of Direct Taxes

A. Construction of office building at Guwahati

A major project being undertaken in the region is construction of an office building for the Income-tax Department at Guwahati. The CBDT had sanctioned an amount of Rs. 12,34,80,721/- vide order No.O/20/2002 dated 24.12.2002 for the construction of this building by the NBCC. The construction is under progress and an amount of Rs. 7 crore has been released for this project, during F. Yr. 2004-05, vide order dated 24.11.2004 in F.No.7/2/2004-IFU (B&A).

B. Administrative Approval and Financial Sanctions

Administrative Approval and Financial Sanctions have been given during F.Y. 2004-05 for works relating to North Eastern Region, in the following cases:-

Sl No	Name of place	Description of Work	Amount	Sanction Order No. & date
1	Guwahati	Improvement/Augmentation of water supply Scheme at I.Tax residential complex.	Rs.19,79,300/-	R/03/2004-05 6.5.2004
2	Dibrugarh.	Installation of 63 KWA DG set at C.R. Bldg., Dibrugarh.	Rs.6,01,925/-	O/18/2004-05 2.6.2004
3	Shillong.	Construction of compound wall & gate for I.T. House at Kenches Trace, Shillong	Rs.8,16,100/-	R/10/2004-05 30.6.04
4	Guwahati.	Earth Filling inside the compus and approach road for staff quarters of I.T. Department at Henglibari, Guwahati.	Rs.21,67,700/-	R/24/2004-05 23.9.04
5	Guwahati	Repairing of W.C. & Bath for stopping leakage of 30 nos. type-I quarters of I.tax residential complex at Bongaon, Beltola, Guwahati	Rs.1,68,600/-	R/31/2004-05 6.12.04
6	Guwahati	Repairing of W.C. & Bath for stopping leakage of 30 nos. type-II qtrs. of I.T. residential complex at Bongaon, Beltola, Guwahati	Rs.4,75,700/-	R/32/2004-05 6.12.04
7	Guwahati	Repairing of W.C. & Bath for stopping leakage of 30 nos. type-III qtrs.of I.T. Residential complex at Bongaon, Beltola, Guwahati	Rs.3,48,600/-	R/33/2004-05 6.12.04

CHAPTER IV

DEPARTMENT OF DISINVESTMENT

1. **Functions and organisational structure**

The Department of Disinvestment was set up vide Notification No. CD /551/99 dated 10.12.1999. 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 was 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.

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 R. Poornalingam relinquished the charge of the post of the Secretary, Disinvestment on 7th December, 2004. Shri N.S. Sisodia, Secretary (Financial Sector) took over the additional charge of Secretary (Disinvestment) and continued till his retirement on superannuation on 31.01.05. Currently Dr. Rakesh Mohan, Secretary (EA) is looking after this charge.

4. The Secretary(Disinvestment) is assisted by three Joint Secretaries. The Department functions on the Desk Officer pattern and the disinvestment work is handled at the minimum level of Under Secretary.

5. **Organisational Structure**

6. **Policy on disinvestment**

The policy on disinvestment is laid down in the National Common Minimum Programme, which is given below:-

"The UPA 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 UPA 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 privatised.

All privatisations will be considered on a transparent and consultative case-by-case basis. The UPA will retain existing "navaratna" 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 UPA Government will induct private industry to turn around companies that have potential for revival.

The UPA Government believes that privatisation 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 privatisation and social needs – like, for example, the use of privatisation revenues for designated social sector schemes. Public sector companies and nationalised banks will be encouraged to enter the capital market to raise resources and offer new investment avenues to retail investors."

7. **Proceeds from disinvestment**

During the year 2004-05, the Government realised a sum of Rs.2,765 crore, out of which the major receipt of Rs.2,684 crore was from the sale of 43.29 crore equity shares of Rs.10 each of National Thermal Power Corporation Ltd (NTPC) out of Government of India holding. A sum of Rs 64.81 crore was realised from the sale of shares to employees of IPCL.

8. **Disinvestment Fund**

Government decided on 27th January 2005 to constitute a Fund into which the realisation from sale of minority shareholding of the Government in profitable PSEs would be channelised. The Fund would be maintained outside the Consolidated Fund of India and would be professionally managed by selected Public Sector Financial entities, which have the requisite experience to provide sustainable returns to the Government without affecting the corpus. This Fund would be called "National Investment Fund" to denote the permanent nature of the corpus and the objectives to which its income is to be applied. A detailed plan for the constitution of the Fund and the specific schemes to be financed from its income would be prepared separately. The broad investment objectives will be:

(i) Investment in social sector projects which promote education, health care and employment ;

(ii) Capital investment in selected profitable and revivable Public Sector Enterprises that yield adequate returns, in order to enlarge their capital base to finance expansion/diversification.

9. **Official language policy**

The Department has a full-fledged Hindi Section 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 (LAN) has been setup and connectivity provided among all officers. Twenty-four hour internet connectivity is also available to all through NIC. E-mail ID numbers have been issued to all officers who are receiving official communications through this. The officers and staff have been receiving training at NIC from time to time.

The website of the Department (www.divest.nic.in) contains data and information(Bilingual) regarding policy, guidelines, procedure and progress relating to the disinvestment cases. 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. **Grievances redressal**

The nature of the allocated business of the Department does not create much of an interface with the public at large. Still, Joint Secretary in-charge of Administration has been nominated as Director of Public Grievances who ensures quick disposal of public grievances, if any.

During the year the Department received 28 grievances and all these cases have been resolved. All the grievances were attended to and disposed of promptly.

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 Cell which includes Vigilance is handled by one Joint Secretary. The Deputy Secretary incharge of Administration is also the Chief Vigilance Officer of the Department.

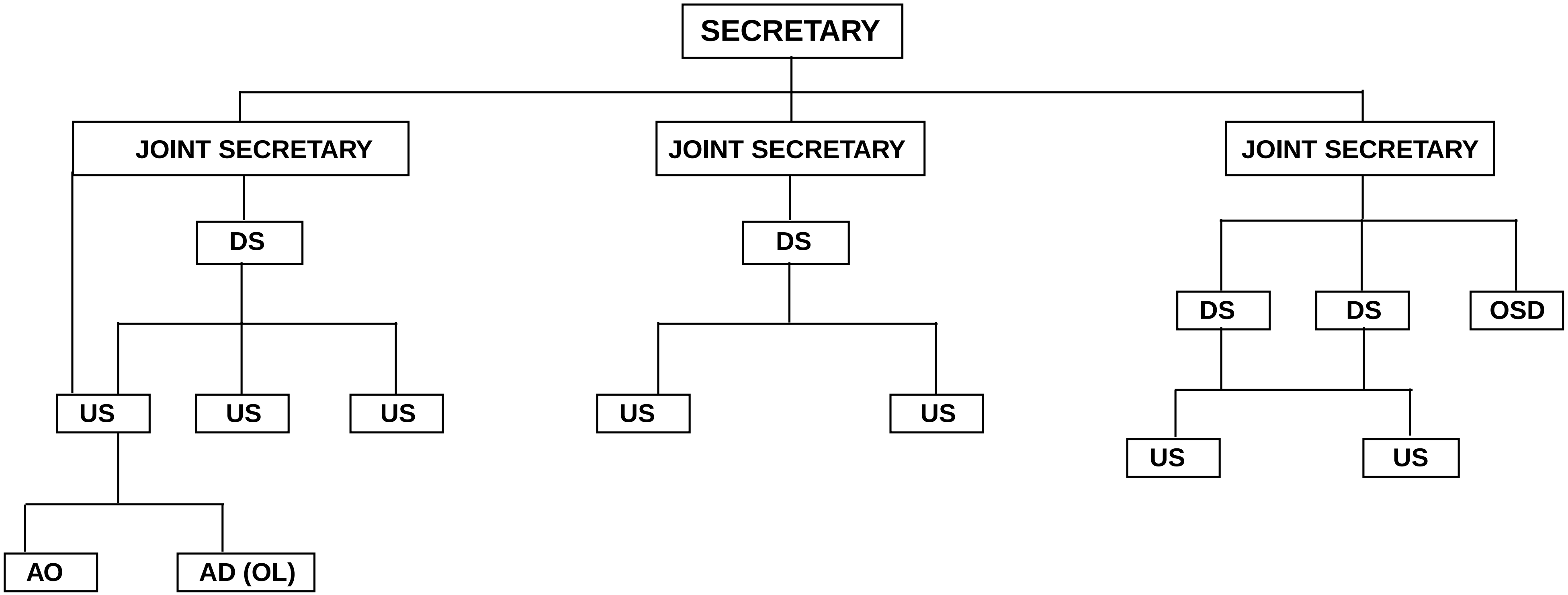
During the year no Vigilance or Disciplinary case was pending.

13. **Audit paras/objections**

During the year, three audit observations pertaining to the audit of accounts of the Department for the period 1999-2002 remained unsettled. These relate to the departmental accounts and not to the disinvestment transactions. The Office of the Principal Director of Audit conducted audit of the accounts for the year 2002-03. Action would be taken on receipt of the report.

ORGANISATIONAL STRUCTURE

DEPARTMENT OF DISINVESTMENT



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

Idling of equipment led to avoidable expenditure on outsourcing: Failure of the Mint to take effective action for operation/ optimum utilisation of equipment resulted in idling of equipment valuing Rs. 16.77 crore besides incurring avoidable expenditure of Rs. 6.80 crore on outsourcing of work.

(Para 3.1 of Report No. 2 of 2004)
Transaction Audit Observations

Overpayment of incentive: Incorrect application of rules resulted in overpayment of incentive of Rs. 2.11 crore by India Government Mint, Kolkata.

(Para 3.2 of Report No. 2 of 2004)
Transaction Audit Observations

Irregular re-employment: Custodian under the Special Court granted re-employment/extension service to 30 employees (two are over 70 years of age) in violation of government rules and incurred irregular expenditure of Rs. 1.83 crore on their pay and allowances.

(Para 3.3 of Report No. 2 of 2004)
Transaction Audit Observations

Insurance Regulatory And Development Authority

Funds lying outside government accounts: Insurance Regulatory and Development Authority (IRDA) did not observe the procedure prescribed by the Ministry and followed by other constitutional/statutory authorities resulting in Rs. 57.93 crore lying outside government accounts.

(Para 5 of Report No. 4 of 2004)
Autonomous Bodies

BANKING

BOB Capital Market Limited incurred loss of **Rs.5.68 crore** in **March 2001** due to imprudent under-writing support to M/s. Krishna Filaments Limited for their public issue of Optionally Fully Convertible Discounted Debentures.

(Para 9.1.1 of Report No. 3 of 2004)
Commercial)

Industrial Investment Bank of India Limited (IIBI) faces the risk of potential loss of **Rs.7 crore** due to disbursement of loan to a promoter during the period from **November 1997 to July 1999** without verifying its competence.

(Para 9.2.1 of Report No. 3 of 2004)
Commercial)

IIBI faces the risk of potential loss of **Rs.4 crore** due to extending undue favour to a private party in the disbursement of loan in **July 1998** without obtaining any security.

(Para 9.2.2 of Report No. 3 of 2004)
Commercial)

INSURANCE

General Insurance Corporation of India's failure to adopt correct figures in the finalisation of commutation agreement in **January 2002** under Re-insurance arrangement with Reinsurance Australia Corporation resulted in an avoidable loss of **Rs.3.17 crore.**

(Para 8.1.1 of Report No. 3 of 2004)
Commercial)

National Insurance Company Limited (NIC) incurred a loss of premium of **Rs.3.80 crore** in **March 1999** due to non-adherence of rates stipulated in market agreement entered into between General Insurance Corporation of India and its four subsidiaries for underwriting the Group Janata Personal Accident Policy issued to Chandrapur District Central Co-operative Bank Limited.

(Para 8.2.1 of Report No. 3 of 2004)
Commercial)

NIC paid **Rs.1.58 crore** in excess **(1999)** due to incorrect method of calculation of claim for a policy covering the year 1997-1998.

(Para 8.2.2 of Report No. 3 of 2004)
Commercial)

New India Assurance Company Limited incurred a loss of premium of **Rs.7.20 crore** in **March 1999** due to non-adherence of rates stipulated in market agreement entered into between General Insurance Corporation of India and its four subsidiaries for underwriting the Group Janata Personal Accident Policy issued to Western Coalfields Limited.

(Para 8.3.1 of Report No. 3 of 2004)
Commercial)

DEPARTMENT OF EXPENDITURE

Union Government Finances and Accounts: 2002 – 2003: During 1985 – 2003, 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 12.74 per cent during 1992 – 97 (VIII Plan) to an average of 12.23 per cent during 2002 – 03.

Interest payments emerged as the fastest growing component of the Union Government expenditure with a trend growth of 18.17 per cent during 1985 – 2003. Explicit subsidies of the Union Government increased from an average of Rs. 13, 469 crore during 1992 – 97 to Rs. 44008 crore during 2002 – 03.

The borrowings were mainly used for debt servicing. On an average 93.57 per cent of the borrowings were used for either repayment of principal or the interest.

(Report No. 1 of 2004)
Accounts of the Union Government

DEPARTMENT OF REVENUE

CUSTOMS

Review on Software technology parks (STP) Scheme

Non-utilization of imported goods by 17 units of STPI Chennai, Mumbai and Hyderabad within stipulated period under customs notification entailed recovery of duty amounting to Rs.4.74 crore besides interest of Rs.1.75 crore. Incorrect grant of exemption from payment of customs/central excise duty on ineligible goods imported/procured by 149 units entailed recovery of duty of Rs.18.08 crore besides interest of Rs.33 lakh. Non-fulfillment of EO and minimum net foreign exchange earnings by 34 units/non submission of Softex forms by one unit entailed recovery of customs duty to the tune of Rs.63.50 crore besides interest of Rs.42.03 crore. Non-levy of duty on irregular domestic tariff area (DTA) sales entailed recovery of duty amounting to Rs.1.38 crore besides interest of Rs.87 lakh from five units. Lack of proper monitoring by Department provided an opportunity to the defaulter units to misuse provisions of Exim Policy and customs notifications. Better co-ordination between Ministry of Finance, Ministry of Communication and Information Technology as well as Ministry of Commerce is needed to tighten controls and exercise stricter vigilance over the STPs.

(Chapter 2 of Report No. 10 of 2004)
Indirect Taxes - Customs

Review on Working of inland customs bonded (public/private) warehouses

Goods worth Rs.206.88 crore involving duty of Rs.185.34 crore were not sufficiently safeguarded through insurance policies. Loss of revenue of Rs.50.38 crore occurred due to theft, shortage, irregular extensions/relinquishment of title to goods after warehousing and postponement of clearance of warehoused goods. Non/short recovery of revenue amounted to Rs.9.48 crore on account of duty and interest on irregular clearance/removal of warehoused goods. Non/delayed disposal of uncleared goods and non restriction of warehousing period for perishable goods led to blockage of revenue of Rs.536.82 crore and loss of revenue of Rs.16.27 crore. Age analysis of select cases revealed that 65 per cent of revenue was blocked for more than 5 years and 29 per cent for over 10 years. Non recovery of duty on shortages of liquid cargo clearance involved revenue of Rs.13.25 crore. Unjustified extensions and lack of timely and effective action in preventing misuse of the facilities led to blockage of substantial revenue. Monitoring mechanism seemed to be weak and ineffective.

(Chapter 3 of Report No. 10 of 2004)
Indirect Taxes - Customs

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, Special additional duty, recoveries from defaulting export houses and other irregularities amounting to Rs.222.42 crore.

The Department/Ministry have replied to audit observations in 165 paragraphs out of 252 paragraphs referred to them and reported recovery of Rs.8.70 crore. Recovery of Rs.2.95 crore was also reported by Department in response to Review on 'Inland Customs Bonded Warehouses' Three hundred and forty one other cases involving duty of Rs.90.34 lakh were pointed out to the department which were accepted and recovery reported.

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 2002-03 was pitched at Rs.91,141 crore, an increase of 11.5 per cent over budget estimates, 22 per cent over revised estimate and 26 per cent over actual collections of 2001-02. The collections in 2002-03 fell short of the budget estimate by Rs.9,100 crore or 9.98 per cent.

The Report commented on two Reviews. Review on determination of assessable value under new section 4 (transaction value) revealed the need for taking into account indirect sale consideration received in the form of subsidy in the transaction value. Adoption of lower mutually agreed prices, clearance of goods by job workers manufacturing branded and unbranded goods at lower assessable value, lacunae in the valuation rules etc. resulted in leakage of revenue of Rs.1328.18 crore.

Review on Call Book - The demand cases which had reached a stage where no action could or needed to be taken to expedite disposal for at least 6 months, could be transferred from pending cases statement to call book. Sample check of call books maintained in selected Commissionerates of Central Excise revealed that there was incorrect/unauthorized transfer of cases to call book, cases kept pending for want of clarification from the Board, non-vacation of stay, etc. involving revenue of Rs.5712.21 crore.

Other points were also pointed out in the Audit Report such as:

By notification dated 8 July 1999 as amended on 9 February 2000, Numaligarh Refinery was entitled to get refund of duty paid on mineral based goods. This refund had been withdrawn by notification dated 1 March 2002 with retrospective effect. Section 142 of the Finance Act, 2002 (enacted on 11 May 2002) provided recovery of all amounts which had been refunded before 1 March 2002, within thirty days from the enactment of Finance Act, 2002. In the event of non-payment, levy of interest at the rate of 15 per cent per annum was also recoverable till the date of payment. Refund of Rs.667.16 crore granted between February 2000 and February 2002 on clearances of petroleum products was recoverable by 9th June 2002. Interest of Rs.80.88 crore was also due for recovery till 31 March 2003.

(Para 4.1 of Report No. 11 of 2004)
Indirect Taxes – Central Excise & Service Tax

By notification dated 7 May 1997 and 2 June 1998 as amended, certain exemptions were provided to pan masala which did not contain tobacco in any proportion and containing betel nut more than 10 per cent by weight. Test check of records of ten assessees revealed that these assessees were allowed exemption on pan masala containing tobacco which was in contravention of the notification resulting in loss of revenue of Rs.81.78 crore.

(Para 4.2 of Report No. 11 of 2004)
Indirect Taxes – Central Excise & Service Tax

Additional duty of excise at the rate of one rupee per litre on High Speed Diesel was levied by Finance Act 1999. Test check of records of 10 assessees revealed that additional duty amounting to Rs.54.34 crore was not collected on high speed diesel cleared between May 1999 and March 2003 for export or for consumption on board a ship bound for foreign run. As no notification providing exemption from additional duty of excise existed, exemption allowed was unauthorised and resulted in loss of revenue of Rs.54.34 crore.

(Para 4.3 of Report No. 11 of 2004)
Indirect Taxes – Central Excise & Service Tax)

SERVICE TAX

Review on service tax on advertisement and courier services revealed inconsistency between Finance Act and Board's instructions on the value of taxable services. Ineffective/in-adequate measures taken by the department to bring unregistered service providers into the tax net, lack of proper system for monitoring of returns required to be furnished by registered service providers, adoption of ineffective assessment procedure, etc were among the main causes for leakage of revenue of Rs.460.79 crore.

Audit reported 42 paragraphs with revenue implication of Rs.42.21 crore relating to service tax. The objections related to non/short recovery of service tax and non-realisation of interest on delayed payment of service tax.

(Report No. 11 of 2004)
Indirect Taxes – Central Excise & Service Tax

DIRECT TAXES

Board's comments on draft paragraphs During 2002-03, out of 980 draft paragraphs issued to the Ministry, replies were received before the finalisation of Audit Report in case of 178 draft paragraphs only which constitute only 18 per cent of the total draft paragraphs issued.

(Para No. 1.6 of Report No. 12 of 2004)
Direct Taxes

Outstanding audit observations As on 31 March 2003, 88,956 observations (excluding the audit observations communicated between 1 April 2002 to 31 March 2003) involving revenue effect of Rs.19,068.73 crore were pending for final action.

(Para No. 1.9.1 of Report No. 12 of 2004)
Direct Taxes

Records not produced to audit

With a view to securing an effective check on the assessment, collection and proper allocation of taxes and examining that 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. On an average 11.47 per cent (50,378 cases) of the cases requisitioned in 2002-03 and 51.09 per cent (21,441 cases) of the cases not produced during earlier audit and requisitioned again in 2002-03, were not produced to audit. Consequently, audit of such cases could not be carried out.

(Para No. 1.15 of Report No. 12 of 2004)
Direct Taxes

Internal Audit

The shortfall in number of cases audited ranged between 47.42 to 54.22 per cent of total auditable cases in 1999-2000 and 2000-01. This shortfall jumped to 91.37 per cent in 2001-02 and 76.83 per cent in 2002-03, though manpower deployed for internal audit had increased by 825 per cent in 2002-03 compared to that in 2001-02.

(Para No. 1.12.1 and 1.12.2 of Report No. 12 of 2004)
Direct Taxes

Tax Buoyancy

Overall direct tax collections as percentage of GDP increased from 2.68 per cent in 1998-99 to 3.39 percent in 2002-03. Average tax buoyancy for last five years increased to 1.422 in 2002-03 as compared to 1.124 in 2001-02.

(Para No. .2.5 and Table 2.4 of Report No. 12 of 2004)
Direct Taxes

Tax collection

Total collections from various direct taxes increased from Rs.46,600 crore in 1998-99 to Rs.83,088 crore in 2002-03 at an compound annual rate of 12.03 percent.

(Para No. 2.5 and Table 2.4 of Report No. 12 of 2004)
Direct Taxes

Position of assessments

Disposal of scrutiny assessments had come down to 19 percent of the assessments due as compared to 77 percent in 2001-02 though disposal of summary cases had gone up to 92 percent of total summary assessments due for disposal as compared to 55 percent in 2001-02.

(Para No. 2.9 and Table 2.11 of Report No. 12 of 2004)
Direct Taxes

Arrears of demand

Uncollected amount of Rs.67,638 crore of total demand of Rs.1,50,726 crore as on 31 March, 2003 comprised demand of Rs.48,821 crore of earlier years and demand of Rs.18, 817 crore pertaining to year 2002-03.

(Para No. 2.10 and Table 2.13 of Report No. 12 of 2004)
Direct Taxes

Important individual irregularities

- The assessing officer incorrectly levied interest for short payment of advance tax only upto the dates of summary assessments and not upto the dates of regular assessments in the case of **M/s Northern Coal Field Ltd.,** CIT Jabalpur charge (AYs 1997-98 and 1998-99). The mistake resulted in short levy of interest of Rs.210.89 crore.

(Para No. 3.29.1 of Report No. 12 of 2004)
Direct Taxes

- The assessing officer allowed exemptions totaling Rs.259.86 crore as against allowable exemptions worked out to Rs.19.50 crore towards interest on tax free bonds, dividend income from infrastructure products. As such income did not form part of total income, proportionate expenditure attributable to the income ought to have been disallowed from the total administrative expenses claimed by the M/s. Punjab National Bank, CIT Delhi-V charge (AYs 1997-98 and 1998-99). This mistake resulted in short levy of tax of Rs.102.10 crore including interest.

(Para No. 3.11.1 of Report No. 12 of 2004)
Direct Taxes

- The assessing officer incorrectly allowed depreciation of Rs.126.73 crore at the rate of 100 per cent instead of 50 per cent admissible to the assessee, since assets were used for less than 180 days, in the case of M/s. Gas Authority of India Ltd., CIT Delhi-IV charge (AY 1998-99). This mistake resulted in short levy of tax of Rs.34.71 crore.

(Para No. 3.16.1 of Report No. 12 of 2004)
Direct Taxes

- The assessing officer completed the assessment of M/s. Dhanendra Diamonds, CIT Central Mumbai-I charge, for the block period 1990-91 to 1999-2000 in February 2002 at an assessed tax worked out to Rs.54.34 crore. Accordingly, surcharge was leviable at the rate of 10 per cent, which was not levied resulting in short levy of tax of Rs.5.54 crore.

(Para No. 4.8.1 of Report No. 12 of 2004)
Direct Taxes

- The assessing officer erroneously exempted interest receipts of Rs.3.49 crore from housing loans which was otherwise liable to be taxed in the case of M/s Dewan Housing Finance Corporation Ltd., CIT Central-III Mumbai charge (AY 1998-99). This mistake resulted in short levy of tax of Rs.1.20 crore.

(Para No. 5.16.1 of Report No. 12 of 2004)
Direct Taxes

SYSTEM APPRAISALS

Operation of scheme of taxation of companies (MAT) under special provisions of Income Tax Act (Section 115 JA/JB): A number of companies had paid no tax or marginal tax despite earning substantial book profits and paying handsome dividends. With a view to arresting this laxity in the tax regime and bringing the so called 'zero tax companies' under the tax net, special provisions of tax on deemed income of certain companies were introduced with effect from 1 April 1997 as section 115 JA of the Income Tax Act.

Audit reviewed the operation and implementation of the special provisions in respect of taxation of companies and covered assessments completed during the financial years 1999-2000 to 2002-03 and upto July 2003.

Audit test checked 80,682 cases and found mistakes in 2469 cases involving revenue effect of Rs.1734.10 crore. 1885 summary assessments resulted in loss of revenue/tax effect of Rs.905 crore.

6185 companies in Maharashtra, Tamil Nadu and West Bengal charges did not pay any tax even though these had declared dividends amounting to Rs.2498 crore. Atleast 125 of these companies did not pay the required tax amounting to Rs.241.12 crore under the special provisions.

630 cases were incorrectly assessed under normal provisions, even though they attracted special provisions. Tax amounting to Rs.178.61 crore was not levied.

Special provisions were invoked in 26 cases when income under normal provisions was higher resulting in short levy of tax of Rs.9.76 crore.

Following are individual irregularities noticed during the review:

- In the cases of M/s. Reliance Industries Ltd., M/s. Videocon International Ltd., M/s. Videocon Appliances Ltd., M/s. Reliance Industrial Infrastructure Ltd., Mumbai, M/s. Southern Petrochemical Industries Corporation Ltd., Chennai and M/s. Janpath Investments & Holdings Ltd., Kolkata, assessing officers irregularly allowed deduction of amounts depicted as withdrawn from reserves against which additional depreciation arising from selective revaluation of assets was set off, while computing book profit, leading to short levy of tax of Rs.521.51 crore.

- Export profits were incorrectly deducted in the case of **M/s. Reliance Industries** in Mumbai III charge for assessment years 2001-02 and 2002-03 resulting in short levy of tax of Rs.120.49 crore.

- Assessment was completed under normal provisions of the Act even though special provisions were attracted in the case of **M/s. Mahanagar Telephone Nigam Ltd**. in Delhi charge for the assessment year 2001-02 resulting in short levy of tax of Rs.104.61 crore.

Audit recommends that government may like to

- include cases of companies attracting special provisions as one of the parameters for selecting assessments for scrutiny.

- introduce a mandatory column in the income tax return form to facilitate identification of companies where special provisions are attracted.

- empower the assessing officer to initiate suitable penal action against statutory auditors whose certificates are found to be incorrect or defective.

- consider amending relevant provisions of the Act to plug the loopholes so that unintended benefits do not accrue to companies contrary to the spirit of special provisions of taxation.

- incorporate a suitable provision in the Act enabling the assessing officer to rectify mistakes in computation of net profit under special provisions.

(Chapter 1 of Report No. 13 of 2004)
Direct Taxes

Assessment of business of civil construction: Information furnished by the department to audit indicated that only 179 new assessees were added to the tax net during the period 1999-2000 to 2001-2002 through survey.

Audit scrutiny revealed claims of irregular and excess depreciation that were allowed by the Department in 52 cases involving short levy of tax of Rs.212.78 crore.

Audit noticed several irregularities in assessments of civil contractors and builders such as incorrect computation of business income, wrong allowance of expenditure, deductions, unascertained liabilities, provisions, adoption of incorrect rate of tax, interest and status. Tax was levied short by Rs.81.69 crore in 495 cases.

Audit noticed that tax was not deducted at source or tax deducted was not remitted or remitted late to government account in 209 cases. The transaction of repayment of loans/deposits was not carried out through cheques/demand drafts in 62 cases. Total short levy of penalty and interest in these 271 cases worked out to Rs.72.50 crore.

Assessing officers omitted to assess total contract receipts in the hands of the assessees, as related receipts from which tax was deducted were either not taken at all or incorrectly taken into account resulting in undercharge of tax of Rs.49.21 crore in 232 cases.

"Project completion method" of accounting for income from civil construction was accepted by the Department. Audit scrutiny revealed that this method of accounting was misused by builders by postponing accountal of profits and thereby the taxes indefinitely. In two cases where audit could quantify the revenue effect, short levy of tax was Rs.2.06 crores. In 11 cases, government lost revenue of Rs.37.01 crore as these assessees were exempted from declaring minimum eight per cent of gross receipts as income that was mandatory even for smaller contractors with a turnover of less than Rs.40 lakh.

Returns of civil contractors who were expected to return income at the rate of minimum eight per cent of their gross receipts without audited statement of accounts were accepted by the Department, even when the income returned was less than eight percent of gross receipts. This resulted in short levy of tax of Rs.3.22 crore in 142 cases.

Audit recommend that: -

- the person registering the document for the execution of contract could be bound by statute to furnish details, to the assessing officer, of all cases where the value of transaction exceeds rupees one crore.
- obtaining tax clearance certificate before registration of immovable property in excess of a threshold level of monetary value may be prescribed in the Act and made mandatory.
- Government may issue clarification restricting the benefit of exemption of long term capital gains to direct investment in infrastructure companies or funds, which will prevent exploitation of the benefit by investors through speculation in secondary market operations.

(Chapter 2 of Report No. 13 of 2004)
Direct Taxes

Assessment of private schools, colleges and coaching centers: Department did not have a database of educational institutions and coaching centres though such a tool would have enabled effective monitoring of the activities of the institutions and assisted in devising a strategy to ensure that income of only genuine educational institutions not working for purpose of profit was exempt from tax.

Department failed to evaluate genuineness of exemption claimed by educational institutions as 95 percent assessments had been completed in summary manner.

Audit noticed mistakes in 650 summary and scrutiny cases involving tax effect of Rs.174.18 crore relating to several procedural lapses/irregularities, incorrect application of income, income escaping tax, irregular donations, cases of diversion of funds for non charitable purposes and other omissions. This indicated that the Ministry needed to tighten the implementation of tax laws and strengthen the tax administration in this important area.

Audit noticed that assessing officers committed the following mistakes:

- exempted income irregularly without obtaining requisite approval/ registration from the prescribed authority in 129 cases where tax implication was Rs.59.24 crore.
- exempted income without the institutions fulfilling the prescribed conditions or even without claiming exemption or claiming under incorrect sections in 29 cases involving tax effect of Rs.5.72 crore.
- exempted income of coaching centres erroneously instead of assessing them under the normal provisions applicable to business in 10 cases involving tax effect of Rs.1.62 crore.
- gave irregular exemption even when income was accumulated beyond the prescribed percentage in 33 cases involving tax effect of Rs.7.93 crore.
- exempted ‘capitation fee’ receipts in eight cases involving tax effect of Rs.34 crore.

Audit recommend that:

- a single section/clause be introduced for exemption of educational institutions whether run by trusts or other than trusts. Two separate clauses providing exemption under section 10(23C) and 11&12 overlap each other and are being misused by educational institutions.
- every educational institution may be mandatorily made to submit audited accounts along with return of income every year whether its annual receipts are less than Rs.one crore or more or financed from government funds or not. In the absence of such a mandate, the department had no effective tool to monitor the activities of educational institutions and ensure their compliance with the Income Tax Act.
- more severe penal clauses may be introduced to prevent or deter misuse of income/surplus generated for other than educational purposes as charging maximum marginal rates for unauthorized usage has not proved be an effective enough deterrent.

(Chapter 3 of Report No. 13 of 2004)
Direct Taxes