RESTRUCTURING
OF THE
DEPARTMENT OF
ECONOMIC AFFAIRS

सत्यमेव जयते

भारत सरकार
वित्त मंत्रालय
व्यय सुधार आयोग
GOVERNMENT OF INDIA
MINISTRY OF FINANC
EXPENDITURE REFORMS COMMISSION

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PREFACE

This is the Third Report of the Expenditure Reforms Commission and contains recommendations for restructuring of the Department of Economic Affairs of the Ministry of Finance.

In preparing this report the Commission benefited considerably from interactions with Shri Ajit Kumar, Finance Secretary and Secretary, Economic Affairs and some of his senior colleagues and also with Dr. E.A.S. Sarma, former Secretary of the Department. Shri S.S.Hasurkar, former Joint Secretary, Government of India functioned as the Commission's consultant and assisted in the preparation of this report. The Commission would like to place on record their sincere appreciation of the contribution made by these officials in giving shape to the recommendations.

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Department of Economic Affairs

EXECUTIVE SUMMARY:

(i) Finance Ministry has a key role in formulating policies for the ongoing economic reforms in various sectors and also for implementing these in sectors like banking, insurance, capital markets etc. Considering that economic reforms represent a major shift from the policies and procedures followed in the earlier decade, there is need for filling up four or five posts at the Additional/Joint Secretary level in the Economic/Banking/Insurance/ Capital Markets divisions, with experts recruited from outside on a contract basis.

(ii) With the establishment of the Insurance Regulatory and Development Authority, it is no longer necessary to continue Insurance Division as a separate division. It can be merged with the Banking Division and the post of Special Secretary (Insurance and External Finance) can be abolished. Apart from "returning" to the concerned insurance companies 24 personnel drawn from these companies and working in the insurance division, there is also need for reducing by 16 the staff strength at the level of Under Secretaries and below.

(iii) The Integrated Banking and Insurance Division can be headed by an Additional Secretary, thus ensuring that Secretary, DEA's direct responsibility for the efficient functioning of the Banking and Insurance Division is in no way diluted. Towards this end the present post of Special Secretary, Banking, needs to be downgraded to that of Additional Secretary (Banking and Insurance).

(iv) The Board for Industrial and Financial Reconstruction and the Appellate Authority for Industrial Finance Reconstruction have not fulfilled, in a satisfactory manner, the purpose for which these were set up. The lenders of resources are best placed to take an early view on whether a sick unit should be revived – often this could be in their own self-interest – or whether action for recovery of their dues should be initiated. In these circumstances SICA should be repealed and these two organisations wound up. These two organizations have staff strength of 211, including 42 Group A posts.

(v) Considering the vast networks put in place by the state governments to promote small savings, it is no longer necessary to continue the National Savings Organisation in its present form with a vast network of field offices with a total staff strength of 1191. It can be downsized into a compact policy making body with a staff strength of only 20/25. The practice of appointment of agents and payment of commission to them by Government of India should be discontinued leaving it to states to formulate and extend suitable incentive schemes for promoting small savings. There is also need for restructuring the interest and tax incentives under the various schemes in order to ensure that the focus on promoting genuine 'small savings' is not lost.

(vi) The focus of the Indian Investment Centre should be on the dissemination of information on the procedures for clearances, particularly the changes made from time to time as part of the ongoing reforms process, in the various ministries etc. Escort services and liaison work are best left to private initiatives – consultancy organisations and local partners. Viewed this way this organisation with a staff strength of 126, could be down sized into a compact officer oriented unit, headed by an Additional Secretary/Joint Secretary level officer and a staff strength of only around 20. Secretary, DEA could be its ex-officio chairman. Given the major advances in communication facilities and the connectivity of the different organisations it would neither be necessary for the IIC to have any offices abroad nor for any other ministry to have separate outfits or staff to respond to NRIs and others on their investment enquiries. Positions created specifically for this purpose in other ministries, including external affairs, need to be abolished.

(vii) The productivity of the Mints (other than the one at Noida) and the presses is quite low and the work force excessive. A drastic downsizing – a reduction of about 60 to 70% of the sanctioned strength of over 25,000 - is necessary and towards this end a liberal retirement/separation package on the lines already recommended by the Commission, could be introduced in these units. Considering the low levels of productivity and total output, even where lines of production have been modernised, there is also need for improving managerial efficiency. In particular it needs to be examined to what extent these units could be freed from government procedures which are often time consuming, be it in making appointments, floating of tenders etc. Production in the three lines (which are yet to be modernised) in the Bank Note Press at Dewas as also in the Security Paper Mill at Hoshangabad could be phased out, while in the case of the latter privatization also could be considered as an option. The Security Printing Press at Hyderabad, could be made a 'dedicated' press for meeting the requirements of the Departments of Posts and control of this unit transferred to that department. The two currency note presses at Dewas and Nasik could be transferred to the Bhartiya Reserve Bank Note Mudran Nigam.

(viii) Within the department (other than Banking, Insurance, Budget and Economic Divisions) it should be sufficient if there is only one Additional Secretary. As the Secretary and the officer in charge of Fund-Bank division have to go on tour together often, it would be advisable if Fund Bank division is headed by a Joint Secretary and the Additional Secretary is given responsibilities for two or three of the other divisions. This way the Additional Secretary would be able to stand in for the Secretary whenever he is away on tour abroad. There is a case for reducing one post of Joint Secretary straight-away and one more when the recommendations relating to Mints and Presses are put through.

(ix) In terms of manpower these suggestions visualize the winding up of AAIFR and BIFR, considerable downsizing of National Savings Organisation, Indian Investment Centre, Mints and Presses and also abolition of one post each of Special Secretary, Additional Secretary and Joint Secretary as well as 31 others at the level of Director / Deputy Secretary / Under Secretary / Section Officer, as also downgrading of one post of Secretary to that of Additional Secretary in the first stage, and abolition of one post of Joint Secretary and 4 posts at the level of Director / Deputy Secretary/ Under Secretary / Section Officer in the next stage. There will be a corresponding reduction at the support staff levels in both stages.

I. An Approach to Restructuring

Department of Economic Affairs came into existence in 1949 when the Ministry of Finance was bifurcated into two departments viz. the Department of Revenue and Expenditure and the Department of Economic Affairs. The newly created Department of Economic Affairs had three divisions – Internal Finance, External Finance and the Budget. The Internal Finance Division looked after the work relating to the Reserve Bank of India, State Bank of India and its subsidiaries, administration of IFCI Act, banking legislation etc. as also currency and coinage work. While External Finance Division dealt with all external commercial relationship, the Budget Division was responsible not only for the budget work but also for the administration of the National Savings Organisation set up earlier. The department served as the Secretariat for the Economic Committee of the Cabinet. The Economic Division, headed by the Economic Adviser, which had continued its separate existence outside of the two departments but within the Ministry of Finance, was brought under the Department of Economic Affairs in 1955. With the nationalisation of insurance in 1956, a new division, Insurance Division, was added to the department. With the nationalisation of the major banks in 1969, 'Banking' became a separate department headed by a secretary.

2. While there were many changes in the intervening years – for instance, Insurance Division was moved out of the department in 1964 to a separate Department of Company Affairs and Insurance then made part of the Department of Revenue in 1966 and then came back to the Department of Economic Affairs in 1975; Banking became a wing of the Department of Revenue and Banking and later in 1977 brought back into the fold of Department of Economic Affairs; and so on – by 1980, the size and structure of Department of Economic Affairs had more or less stabilized with 7 broad areas of work – Economic Division, Budget Division, Banking Division, Insurance Division, Investment Division, External Finance Division and Currency and Coinage Division. This pattern has held good over the last two decades, though with minor realignments. The total number of officials at different levels has changed from time to time not only reflecting the changes in functions and responsibilities but also the usual promotion pressures of the various cadres. As on 31st March, 2000, this department which is headed by a Secretary, had 4 Secretary level officers, 19 Additional Secretary and Joint Secretary level officers, 59 Directors and Deputy Secretary level officers and 238 Under Secretary and other level officers with a support-staff complement of 1204. In addition, there is also a workforce of about 25000 in the various mints & presses directly administered by the department and staff strength of 1191 in the National Savings Organisation. The present functions of the department and the distribution of staff strength are set out in Annexe I and II.

3. Any attempt at redefining the functions, structure and staff strength of the Department of Economic Affairs has to take note of the following aspects as well as recent developments:

(i) The Finance Ministry plays a key role in formulating policies for the economic reform process in all sectors and also has direct responsibility for implementation in areas like tax and tariff reforms as well as reforms in sectors like banking, insurance and capital markets. While the secretaries in the Finance Ministry would continue to act as the think tank in this regard, they, in turn, would need to be supported by senior level officers of the Department of Economic Affairs, particularly the Economic Division having indepth knowledge of the reform process not only in finance related areas but also in areas where the main responsibilities for reforms may vest in other ministries viz. Telecommunications, Commerce, Agriculture etc. A part of this expertise can, and does, come from within. However, considering that economic reforms represent a major shift from the established thinking and procedures, it does become necessary to induct some “state-of-the-art” expertise from outside as well. While this has already been happening to some extent, it would be necessary to think in terms of a pool of say 4 or 5 experts to be inducted from outside at the level of Joint Secretary/ Additional Secretary not only in the Economic Division but also in divisions like Banking, Insurance and Capital Market in the department itself. In order to have flexibility in “rotating” such experts, the appointments should be on a contract basis for a 3 or 4 year term and the procedures for recruitment simplified so that the process could be completed within a couple of months’ time. The present practice of having to go through the UPSC invariably takes a year or more in each case. Like-wise it would also be necessary to give them priority in allotment of general pool accommodation. The department would also need to make increasing use of the expertise available in research organisations by engaging them as ‘consultants’ for specific assignments.

(ii) The coming into being of the Insurance Regulatory and Development Authority (IRDA) would result in a considerable reduction in the workload, and consequently in the staff strength of the Insurance Division. At the same time, it has also to be noted that it may take sometime for the development of a proper relationship between this regulatory authority on the one hand and the government on the other. In this context, even while examining the scope for downsizing of the staff strength of the

Insurance Division, it will be necessary to examine whether it would not be desirable to merge this division with the Banking Division so as to benefit from the structure of relationship already evolved between the Reserve Bank of India and the government.

(iii) When 14 major banks were nationalized in 1969 the banking work was entrusted to a separate department in the ministry. There was not only a sharp increase in the ownership and policy level work but also the eagerness to bring about a comprehensive improvement which led to the department undertaking a number of activities normally undertaken only by the Reserve Bank of India. Consequently this new department which was headed by a Secretary, also had at the senior level one Additional Secretary, 5 Joint Secretaries and 4 Directors and a full complement of officials at various other levels. Over the last three decades, a more healthy division of work between the Reserve Bank of India and the government has developed and in the process, the Banking Department has already shed some weight – the post of Additional Secretary and 2 Joint Secretaries along with some support staff have been axed – and it has also again become a division in the Department of Economic Affairs. Now that a well settled relationship exists between the government and the Reserve Bank of India and also considering that it is the Secretary, Department of Economic Affairs who deals with the Reserve Bank of India as well as international financial and monetary institutions, and is also directly responsible for the efficient functioning of this department, the question needs to be examined whether the post of Special Secretary (Banking) needs to be continued and also whether this division would not admit of further downsizing at lower levels. In making this assessment, note has however to be taken of the fact that some major legislations in regard to regulation and control of Non-Banking Financial Companies, amendments to Bank Nationalisation Acts, and further strengthening of Reserve Bank of India are on the anvil and are expected to be put through soon.

(iv) The Sick Industrial Companies (Special Provisions) Act, 1985 (SICA) *inter alia* provides for enquiring into and determining the incidence of sickness in industrial companies and for advising on suitable remedial measures through appropriate schemes or other approvals and ensuring their implementation. Independent of the question of what would be the ideal modality for securing these objectives, is the issue whether the agencies, namely the Board for Industrial and Financial Reconstruction

(BIFR) and the Appellate Authority for Industrial and Financial Reconstruction (AAIFR) etc. specifically created for this purpose in 1987, have had any impact at all in the last 13 years. This assessment necessarily has to be made on the basis of the performance of these institutions.

(v) Over the years, the Indian Investment Centre has already undergone major downsizing with the closure of all its foreign offices. It still has a large outfit, with 126 sanctioned posts in Delhi. With the opening up of the economy a question does arise whether even this headquarters outfit needs to be continued at all. Considering that notwithstanding the initiation of the reform process ten years ago, the style of functioning of most ministries has still not changed much, and obtaining information, even of a non classified nature continues to be a major problem, there is a case for having a small officer oriented outfit, for providing information, for all those who seek it, be it an NRI, FDI or FII, on the various changes in procedures for clearances made by the different Ministries. Given the emerging competitive scenario, "escort" services are best left to the private sector, the local partners and consultants. As Finance Ministry plays a key role in the formulation of reform policies for all sectors, this outfit with a limited role of furnishing of information should continue to function under the Finance Ministry. The major advances in communication facilities, and the increasing inter-connectivity of the various ministries, would need to be taken into account in determining whether Indian Investment Centre needs to have offices abroad and whether other ministries need to have separate outfits for responding to NRI's and others on their investment related enquiries.

(vi) The National Savings Organisation with its headquarters in New Delhi and 26 regional and 32 field offices, has a total strength of 1191. When this organization was set up in the late 1940s, the primary objective was to promote small savings by inculcating the habit of savings. However, over the years this has become a major instrument of borrowing for the state governments, fetching them as much as Rs.27,000 crore in 1999-2000. It is seen that 21 states have a total staff of 3404 deployed on mobilization of small savings i.e. nearly three times the staff strength of the National Savings Organisation. With the states having a major stake in small savings collections and also having built up large networks for promoting the schemes, it would appear necessary to examine whether the National Savings Organisation cannot be downsized and also whether the task of appointment of agents and devising suitable incentive schemes for promoting small savings should not be left to the state governments. Further, over the years the character of these campaigns have undergone a change with some of the schemes becoming a major avenue of investment for corporate and large entities, which sought to take advantage of the high interest rates and various tax concessions. Thus the UTI alone invested about Rs.3870 crore between 1989-90 and 1995-96. In 1995 institutional investment was not allowed except in Indira Vikas Patra. The Indira Vikas Patra Scheme was closed in June 1999. It will be necessary to examine whether suitable changes are still not required to be made in the interest and tax incentive structures, with a view to refocusing attention on promotion of genuine small savings.

(vii) Printing of currency notes and minting of coins was possibly considered as a sovereign function and consequently the management of the presses and mints was directly vested in the Department of Economic Affairs. However, with the new bank note presses set up in 1992 being run by a corporation functioning under the Reserve Bank of India, the need for the bank note presses earlier set up continuing to be directly administered by the government through the Department of Economic Affairs would merit examination. Also, the fact that the productivity of bank note presses is only just about 20% of those in the presses functioning under the Reserve Bank of India points to excessive workforce in these mints and presses functioning under the department. Productivity and output are extremely low, even in the units, which have been fully modernised over the years. The issue of excessive work force and the need for improving managerial efficiency would therefore need to be addressed first. The functioning of two bank note presses directly under the government and the two other under the Bhartiya Reserve Bank Note Mudran Nigam could lead to problems of coordination in matters like procurement of paper etc. While the requirements of the Department of Posts are now printed at both the India Security Press, Nasik and the Security Printing Press at Hyderabad, given the Department of Posts initiative in farming out a part of their requirements to the private presses, the question whether one of the Security Presses should not be dedicated exclusively to meeting the requirements of the Department of Posts' needs to be addressed. Given the low productivity and extremely poor quality of the output, the question whether production at the Security Paper Mill at Hoshangabad should not be phased out or in the alternative, the unit privatised would merit attention.

(viii) The number of senior officers – additional secretaries and joint secretaries – assigned for the various areas of work like Controller of Capital Issues, Investments, Foreign Trade, Fund Bank, ADB, EEC etc. have undergone some changes over the years both in terms of levels and inter se distribution of work. The structures as now in position and the staff complement would need to be re-examined in the context of changing importance of each of these areas of work.

(ix) Considering that Secretary, Department of Economic Affairs has a direct responsibility for the efficient functioning of Banking, Insurance and External Finance Divisions, the need for continuing with the posts of Special Secretary (Banking) and Special Secretary (Insurance and External Finance) would need to be gone into. However, as far as the Economic Division is concerned, it is noted that, over the decades, a good healthy working relationship has been developed between the 'administrator' secretary of the department and the 'advisor' secretary of the Economic Division, with the two acting as a team in providing inputs on all economic issues. This arrangement could therefore be continued.

4. A division wise analysis of the present functions and staff deployment as also the lines on which these could be restructured, having regard to the major issues listed above are set out in the succeeding chapters.

II. ECONOMIC DIVISION

The main functions of the Economic Division are advisory in nature. It examines trends in the economy and undertakes techno-economic studies having a bearing on the formulation of economic policies. It keeps a close watch on economic developments – both domestic and external. Subjects dealt with by the Economic Division are

1) Monitoring of prices and price policy
2) Monitoring trends in agricultural and industrial production
3) Monitoring of production, public distribution and stocks held by the Government of India
4) Money and credit
5) Public finance
6) Fiscal policy and tax reforms
7) Foreign trade and balance of payments

8) International financial institutions and issues related to world monetary system, finance and development
9) Annual economic survey
10) Economic and functional classification of Government of India budget
11) Weekly review and monthly report on the economy
12) Selected economic indicators (Monthly)
13) Statistical album on public finance

The division is headed by the Chief Economic Adviser, in the rank of a Secretary supported by two Senior Economic Advisers (in the rank of Additional Secretary), four Economic Advisers/Advisers ((in the rank of Joint Secretary) and a number of Additional Economic Advisers, Dy. Economic Advisers, Asstt. Economic Advisers and Economic Officers/Section Officers and Economic Investigators, Assistants and other section staff. The details of the sanctioned strength of the Economic Division is set out in the Table below. (The division has not apportioned its sanctioned strength unit-wise)

Statement showing staff strength of Economic Division

(Economic Posts excluding Posts in other Divisions)

	Economists	**Sanctioned strength**
1.	Chief Economic Adviser	1
2.	Senior-Economic Adviser	2
3.	Economic Adviser	2
4.	Adviser	2
5.	Director Addl./Dy.Economic Advisers/Jt. Director	14
6.	Assistant Adviser/ Dy. Director	5
7.	Research Officer	5
8.	Economic Officer/Eco. Investigator	20
TOTAL		**51**

The work of the Economic Division is divided amongst the following Units:

1) Administration and Coordination Unit
2) Fiscal Policy, Public Finance, Plan and Macro-Economic Unit
3) Social Sector and Economic Monitoring Unit
4) External Sector, Trade and International economics
5) Industry and Infrastructure Unit
6) Prices and Agriculture Unit
7) Money and Capital Market Unit
8) Special Studies Unit

At the outset it needs to be emphasized that in the days ahead government's access to high class professional expertise in diverse spheres has to improve manifold to be able to successfully manage the economy. As the economy enters the phase of free market, gets integrated with the global economy and witnesses free fund flows, its sensitivity and responsiveness to meet the challenges will increase necessitating high levels of proficiency in the various levels of management. It is also envisaged that in a globally integrated economy, the government would have to be proactive to ensure that the economy moves in the desired direction. Such proactivism and the manipulation of management levers will necessarily have to be on the advice of experts. There will be no room for a common sense approach to the tasks involved. Not only in the areas of monetary policy, fiscal policy, credit policy, price policy, international economic relations etc. but also for ushering in reforms in the various other sectors, there would be need for expert economic advice. It is therefore, expected that as the reform agenda gets progressively expanded, the role of Economic Division in the Department of Economic Affairs will become more crucial to the governance of the economy. Having said this, it has to be recognized that the work in the Economic Division is not confined to giving expert advice on management of the economy. A good part of its work is relatively routine which requires knowledge of economics/ statistics but not expertise of the calibre referred to earlier. There is also apparently duplication of work, probably because of lack of inter-ministry coordination and cooperation. For example, Economic Division in the Department of Economic Affairs has units to monitor India's foreign trade, its commodity composition and its geographical composition; to monitor industrial production, agricultural production, monsoon and index of crops and other matters relating to food and agriculture. Both the Ministry of Agriculture and the Ministry of Commerce and Industry have economic advisers with the requisite expertise at different levels to do precisely what the Economic Division in DEA does in these spheres. There is no reason why the expertise available in other ministries cannot be used by the Chief Economic Adviser in the DEA at least for monitoring trends in respective spheres of the economy.

An assessment of the Economic Division, should, therefore, in the light of the foregoing, segregate the routine work from that requiring expert advice.

First, in regard to expert economic advice to the government on the management of the economy. The need for such advice has already been explained in the earlier paragraphs. The level and quality of advice required can come from top notch experts who have had not only brilliant academic achievements to their credit in reputed institutions but also had sustained exposure to modern economic thought and concepts and experience of handling economic assignments in an environment of free play of market forces. Such advice does not demand support structure in the traditional sense.

It is envisaged that to handle the total workload involved in both, tendering of proactive expert advice to government on management of the economy and undertaking more prosaic function of monitoring, survey, reports and briefs, etc., the Economic Division in the DEA should have at the most four economists at the level of Senior Economic Adviser/Economic Adviser/Adviser (SAG) to assist the Chief Economic Adviser. To discharge the responsibility of tendering proactive expert advice to the government at least two of these four functionaries should be top notch professional experts mentioned in the previous paragraph. All the senior economists at this level may be supported by a set of staff officers attached to them, who would collect, collate, analyse any information/statistical input that the experts may require to tender advice on a given problem. For this work, there is no need for hierarchical movement of papers in the Economic Division. In fact, it is felt that the secretariat style of functioning is unsuitable for an organization like the Economic Division where the section or the economic Investigators are not the repositories of knowledge, information, background or history of the problems. It should, therefore, be the endeavour of the division to evolve a style of functioning wherein unwarranted application of mind to a given issue at successive levels, is avoided.

It is to be recognized that the level and the quality of expertise that one would be looking for is not acquired through successive progression in government assignments. It has also to be accepted that experts of very high calibre are keen to sustain their expertise and, therefore, may not be willing to get permanently uprooted from their normal work environment. If they take up government assignment, it would be for specified periods after which they may want to go back to work in a different environment.

In view of the foregoing, it is felt that of the four posts at the level of one Senior Economic Adviser/Economic Adviser, for two posts the recruitment structure should be such as to permit lateral entry of experts, if so desired, on contract basis for specified periods. At that level, the rigidity of service structure would also have to yield to flexibility, which permits engagement of area-specific experts as consultants for a specified period on specific assignments. Such appointments should not be subject to the normal processes of recruitment, which are time consuming. Besides, it will be the government who will be keen on securing the services of the experts and the latter may not like to submit themselves to government’s style and norms of scrutiny for judging the suitability of a person for any post under the government. Proliferation of such appointments can be controlled by specifying the number of posts and their levels at which the division may opt for appointment of consultants. The appointments should be for specified periods, renewable at the end of the term if the expert is willing and government finds it desirable to retain his services. This should apply to even existing government servants who at the end of the term of appointment may revert to their pre-appointment posts or wherever they hold a lien.

In addition to inducting experts from outside, the Economic Division should also seek to tap the numerous research and professional organisations, with a very high degree of expertise that are available, by using them as consultants for specific assignments. This is already happening to some extent, but much greater use needs to be made of this ‘resource’ in the coming years.

The other and larger part of Economic Division’s work is of a routine nature, not demanding high level of exposure to modern economic management practices. The work in this segment relates to monitoring indices of different sectors of the economy, preparation of monthly economic report to the cabinet, compilation of statistical albums, preparation of briefs for various functionaries on economic subjects, preparation of annual economic survey etc.

As already mentioned, there does not appear to be any reason why the Economic Division of the Department of Economic Affairs cannot rely on economic advisers of other ministries, wherever they are located, for sector specific data flow, monitoring reports etc. In such areas, the monitoring reports need not be prepared anew in the Economic Division. The top economists should get the monitoring reports of the economic advisers of specific ministries as direct inputs into their policy formulation exercises. There are economic advisers in the Ministries of Agriculture and Cooperation and Industry and Commerce. As such, the routine work being done in the Economic Division of DEA in relation to these sectors should be farmed out to the economic advisers of the ministries concerned. The remaining work could be regrouped into units, which can be placed under the charge of Dy. Economic Advisers/Addl. Economic Advisers.

The overall workload of the division may require four economists at the level of Senior Economic Adviser/Economic Adviser/Adviser. One of them should be at the Senior Economic Adviser level so that there is a stand-in available when CEA is away. The Senior Economic Adviser and the three Economic Advisers should have the overall charge of the units distributed among them. It is, however, strongly recommended that they should encourage and empower the unit-heads – Dy. Economic Advisers/ Addl. Economic Advisers – to shoulder the responsibility of most of the routine functions at their level.

In conclusion, therefore, the Economic Division should be restructured to comprise one Chief Economic Adviser, one Senior Economic Adviser, three Economic Advisers/Advisers. These functionaries should have staff officers attached to them at the level of Research Officers / Economic Officers assisted by an Economic Investigator each.

The other units of the division may be regrouped keeping in mind the information flow that is expected from the economic advisers of the various economic ministries. There could be at best six such units. Each unit should be headed by an Additional/Deputy Economic Adviser assisted by Assistant Economic Advisers, Deputy Directors and Research Officers, Economic Officers and Economic Investigators. The revised structure of the Economic Division, after implementation of other recommendations thereon, can be as set out below.

Recommended Structure for Economic Division

Economists

Post	Strength
Chief Economic Adviser	1(1)
Senior Economic Adviser Economic Adviser Advisers Consultants	4(6)
Additional Economic Advisers Deputy Economic Adviser/Jt. Director	8(14)
Assistant Economic Advisers Deputy Directors	5(5)
Research Officer	8(5)
Economic Officer Economic Investigators	16(20)
	42(51)

NB:- *Figures in brackets indicate the present sanctioned strength.*

In line with the reduction in the staff strength at the senior levels suggested above, the staff strength of non-technical and support levels would also need to be scaled down. This can be worked out by the Financial Adviser with the help of Internal Workstudy Unit.

III. INSURANCE DIVISION

Insurance Division of the Department of Economic Affairs, Ministry of Finance deals with all matters pertaining to the Insurance Sector of the economy primarily on the basis of regulatory responsibilities and ownership functions cast upon the central government by the Insurance Act, 1938, Life Insurance Act, 1956, General Insurance Business (Nationalisation) Act, 1972 and Insurance Regulatory and Development Authority (IRDA) Act, 1999.

Till the passage of the IRDA Act, 1999 insurance companies owned by the central government directly like LIC/GIC or indirectly like the four general insurance subsidiaries of the GIC, have had exclusive right to transact insurance business in India. Such regulated environment placed on the government not only the responsibility of managing owned companies but also of regulating and developing the insurance sector as a whole. The Insurance Division had, therefore, diverse functions to perform. For the sake of convenience, the functions the division has been performing have been grouped into five sections viz.

(i) Regulatory and developmental functions;
(ii) Parliamentary and accountability functions;
(iii) Ownership functions;
(iv) Commercial and professional functions; and
(v) Miscellaneous/coordination functions.

With the enactment of the IRDA Act, 1999, the exclusive right of the LIC and GIC and its subsidiaries to transact insurance business in the country has ceased and the road is now open for other private operators to set up insurance companies. The Act has created a distinct Insurance Regulatory and Development Authority (IRDA) which will determine registration of applicants, protect the interest of the policy holders, stipulate qualifications/training, etc. of insurance agents, lay down code of conduct for surveyors and assessors, promote efficiency in the conduct of insurance business, call information and undertake inspection of insurance operators, control and regulate rates, advantages, terms and conditions that may be offered by insurers in respect of general insurance business not so controlled by the Tariff Advisory Committee, specify form and manner of accounts, regulate investment by insurance companies, supervise the functioning of the Tariff Advisory Committee and specify life and general insurance business to be undertaken by an insurer in rural areas / social sector.

The mandate given to the IRDA is so comprehensive that government's role in this sector now stands considerably diminished, though it would take some time before a healthy working relationship develops between government and IRDA. In addition to it's role in policy formulation, the insurance division would continue to discharge the 'ownership role' as well as tasks relating to "parliamentary accountability".

As owners of the LIC/GIC and its subsidiaries, Govt. of India will continue to be responsible for their efficient working, sound business practices and profitable working. It is in this context that one major issue merits mention. At present the government "owns" GIC and the latter in turn "owns" the four subsidiaries. The GIC undertakes reinsurance business and also directly through its subsidiaries transacts insurance business as well; an arrangement not permissible under the Insurance Act which stipulates that an 'Indian reinsurer shall carry on exclusively reinsurance business'. In other words the choice would be for GIC to continue with reinsurance business and give up ownership of the four subsidiaries and the attendant responsibilities or continue as a holding company and close down reinsurance business.

There is a strong case for GIC to discontinue its holding company status and concentrate on reinsurance business as was also recommended by the Committee on Reforms in the Insurance Sector, as otherwise the government would have to consider either setting up of another reinsurance company involving sizable capital outlay or give up the objective of maximum premia retention within the country, either of which would be retrograde measures. In fact, a decision in this regard has become imperative with the expectation that private insurance companies will enter the market by the end of this year at the latest. If GIC ceases to do reinsurance business, all the insurance companies will be compelled to do reinsurance abroad resulting in sizeable outgo of foreign exchange. Besides, IRDA have indicated that, they will designate a 'national reinsurer' with the approval of the government. Such a national insurer shall have 20% of every direct general insurance policy written by any company in India ceded to it compulsorily of which at least 50% will be retroceded by the national insurer on original terms after charging a commission not exceeding 2.5%. With the anticipated growth in the general insurance sector, the above provision would mean handling of a sizeable business by the national reinsurer.

Another reason to warrant refashioning general insurance structure is the changed competitive environment in which all companies would be competing to capture business. Such environment would not permit operators to perform upto their potential if they are shackled by excessive checks and counterchecks. Today the four operating general insurance companies are responsible to two entities. GIC as the first owner and government as the ultimate owner. Rules, regulations, directions, guidelines flow from both – depending on the importance of the matter and gravity of the situation. Such an arrangement dilutes the responsibility of the managements of the companies, particularly of the boards of directors, who are content to have the matters decided by the holding company or the government. This impairs the competitive abilities of the government companies.

In fact, there is great strength in the argument that the four companies be immediately freed from the rigid control of rules/regulations/guidelines and allowed to be board managed, competing amongst themselves to a substantial extent. Opening up of the sector shall see fierce competition among the operators and if government companies are not to lose out to more aggressive and combative newcomers, they ought to know the basics of competition, which the government company employees have forgotten over the last three decades. It would be survival training for them to compete amongst themselves, with the government retaining only emergency levers with itself directly.

Under the General Insurance Business (Nationalisation) Act, 1972, the government has the powers to regulate the terms and conditions of service of officers and other employees of the GIC and its subsidiaries. GIC does not have the power. However, it is reported that this constitutes the major item of work of the GIC consuming sizeable time and resources.

While ideally in a competitive environment the pay structure and terms and conditions of employment of officer and employees of each insurance company should be driven by efficiency as reflected in profitability of operations, there can be a case for some kind of coordinated approach to this problem on the part of all insurance units to eliminate unhealthy competition. The insurance companies can consider setting up some industry association (like the old Insurance Association of India) on the lines of the one obtaining for the commercial banks where common strategies for common issues can be evolved. Government then would have only a guiding role to play to ensure that pay structures and terms and conditions of officers and employees of the insurers do not go out of sync with the conditions in the industry and the general economic environment. (The Ministry of Finance has since notified GIC as the "Indian Reinsurer" and also advised GIC to cease underwriting direct aviation and crop insurance business and also give operational and functional autonomy to the four subsidiaries. Necessary amendments to the General Insurance Business (Nationalisation) Act are however yet to be carried out).

Once this restructuring of the general insurance business is effected, the GIC will have to shed all its functions other than that of reinsurance. It should become a very compact entity. The four subsidiaries will be government companies but managed by their boards of directors. Most of the professional and commercial functions now performed by the Insurance Division will be handled by the respective boards of directors, with the insurance companies resorting to evolution of common strategies through Indian Insurers' Association, wherever commonality of approach is warranted.

The GIC at present has strength of 683 people comprising of 233 officers, 335 supervisory and clerical staff and 115 subordinate staff. Its annual wage bill is Rs.2.31 crore. When GIC restricts itself to reinsurance business alone its size will shrink to less than 60 and its wage bill to less than Rs.75-80 lakh (at present the GIC Division dealing with reinsurance is reported to have staff of 48 with a wage bill of Rs.66 lakh). The excess staff can be dispersed among the four insurance companies. In any case the entry of private operators is likely to witness significant movement of manpower.

Insurance Division has been rendering professional and commercial services to the insurance companies. These are likely to be superfluous once the IRDA becomes operational and the companies become Board managed. The division then will be left with residual functions – legislative, parliamentary accountability and overall policy. The division has also been functioning as an intermediary between GOI, ministries and insurance companies. This is avoidable. In fact the division's intermediation has made the companies less responsive to ministries who may be their clients. The companies should be allowed to deal with the ministries directly with the division coming into picture only on policy issues.

At present the Insurance Division comprises a Special Secretary (part assignment), one Joint Secretary, two Directors, six Under Secretaries, six Section officers and twenty seven assistants, UDCs, LDCs and Class IV Staff in all 43 persons. In addition, the division has taken on loan one officer and seventeen staff from LIC and two officers and four supporting staff from GIC. In all, the strength of the Insurance Division comprises 66 officers and staff.

With the rationalisation of the work, there would be no justification for the division to be headed by a Special Secretary. This post could be abolished. It is expected that the residual responsibility devolving on the Insurance Division could be handled by 1 Joint Secretary, 2 Directors/Deputy Secretaries, 2 Under Secretaries and 4 Section Officers, with 18 support staff, totally 27 in all, resulting in a reduction of 16 personnel of and below Under Secretary level. The right sized Insurance Division can then become part of the Banking Division – which could be called the "Banking and Insurance Division". Placement of insurance work in Banking Division would be advantageous as in the insurance sector the government can draw upon the experience of the Banking Division in evolving a code of relationship between the government and the external regulatory authority – which is new to the insurance sector. The relationship between Banking Division and RBI could be a role model for relationship between government and IRDA. Such an approach will help contain, if not altogether eliminate the stresses and strains witnessed before government's relationship with an external regulatory authority stabilises. It would also be able to achieve more rational utilisation of manpower as some functions of the Insurance Division can be located in Banking Division units handling similar functions in respect of banks e.g. appointments of boards of directors, CMD, EDs etc.

IV. BANKING DIVISION

Banking Division is currently headed by a Special Secretary, with their sub-divisions viz.

a) Banking Operations

b) Industrial Finance

c) Priority Sectors

each headed by a Joint Secretary with eight attendant officers of the rank of Directors/ Deputy Secretaries, nine Under Secretaries, twenty five Sections Officers/Research Officer level officers and a total sanctioned strength of 174 support staff- a total of 220.

The division handles ownership functions and shoulders parliamentary responsibility for 22 public sector banks and major financial institutions, Debt Recovery Tribunals, BIFR and AAIFR, legislative responsibility in respect of banking and financial institutions and interface with the banking regulatory authority viz. the Reserve Bank of India.

The road map for financial sector reforms places the prime responsibility of supervising the observance of prudential norms by commercial banks on the RBI. It also sets sight on gradual reduction of government holdings in the equity of the banks to 33% without changing their character of being public sector banks. It also envisages that these banks should function as board managed and board run companies. When this milestone is reached may be in two to three years, the functions and responsibilities of the Banking Division will further contract. There is also some duplication of work between Reserve Bank of India and the Banking Division in regard to development of banking system, credit policy, rural credit, customer service etc. Thus Banking Division can shed some manpower at Joint Secretary and lower levels also but this is not recommended now in view of the fact that some major legislative work relating to Non-Banking Financial Companies, reduction in equity holding of govt. in nationalized banks, greater empowerment of Reserve Bank of India etc., which are part of the financial sector reforms, needs to be put through in the coming two years.

Finally, it is felt that the Banking Division being headed by a secretary level officer creates an anomalous situation as Secretary, Economic Affairs also has direct responsibility for the efficient functioning of this division. This aspect becomes all the more important as it is the Secretary (EA) who is on the Board of Governors of RBI and also deals with multilateral financial agencies. It is therefore, recommended that the post of Special Secretary, Banking be replaced by that of an Additional Secretary, who will be in charge of the integrated Banking and Insurance Division. This way both divisions will function under the direct control and supervision of Secretary (EA).

Sick Industrial Companies (Special Provisions) Act, 1985:

The Banking Division, through Board of Industrial and Financial Reconstruction and Appellate Authority for Industrial and Financial Reconstruction, administers the Sick Industrial Companies (Special Provisions) Act, 1985, commonly known as SICA. The objective of the Act as spelt out in its

Preamble was

> "to make, in the public interest, special provisions with a view to securing timely detection of sick and potentially sick companies owning industrial undertakings, the speedy determination by a Board of experts of the preventive, ameliorative, remedial and other measures which need to be taken with respect to such companies and the expeditious enforcement of the measures so determined…………."

The Board for Industrial and Financial Reconstruction (BIFR) was set up in January 1987 and became functional with effect from May 15, 1987. An Appellate Authority for Industrial and Financial Reconstruction (AAIFR) was constituted in April 1987.

The BIFR and AAIFR have thus completed 13 years of existence and it would be desirable to undertake a critical performance review of these organisations to determine whether they have sub-served the objectives for which they have been set up or failed to do so and if so, whether they need to be revamped or whether the said objectives are not likely to be achieved by the organisations and therefore they need to be abolished.

Any assessment of BIFR's working has to be with reference to the basic three corner stones of

a) Timely detection of sick and potentially sick companies
b) Speedy determination of preventive, ameliorative and remedial measures and
c) Expeditious enforcement of the measures so determined with the reinforcing fourth corner of the edifice that all this was to be done by the Board comprising experts.

(a) Timely detection of sick and potential sick companies:

The criteria to determine sickness in an industrial company are

(i), Accumulated losses equal to or more than its net worth
(ii) company having completed five years since inception
(iii) company should have 50 or more workers on any date in a year
(iv) it should have a factory licence

By its very nature the detection of sick industrial undertaking is very late if it has to await the erosion of the entire net worth of the industrial company, making it extremely difficult, if not impossible, to design and implement a viable rehabilitation scheme.

So far as potentially sick industrial companies are concerned, there has hardly been any preventive action on the part of the Board to save the companies from becoming sick. Up to end of 1998, BIFR had received reports under Section 23 of SICA (reporting accumulated losses eroding 50% or more of its peak net worth during preceding four financial years) in respect of 1292 companies. Of these 394 companies became sick and made subsequent references to the Board under Section 15(1). The Board places the responsibilities of detecting and tackling incipient sickness on the banks and financial institutions in the context of RBI guidelines on the subject.

(b) Speedy determination of preventive, remedial, ameliorative or other measures:

The SICA mandates BIFR to speedily evolve measures for tackling sickness of an industrial company. However, the performance of the Board in this regard is marked by excessive delays. The process adopted by the Board is excessively time consuming, providing numerous opportunities for multiple loops, which results in shuttling of the case between different parties to the process. Table below gives average time taken for 141 cases disposed of by the Board during 1998.

	Dismissed as non-maintainable	Rehabilitation Scheme Sanctioned	Winding up recommen-ded	Others
No. of cases disposed of	31	49	54	7
Average time gap between registration and first hearing	47 days	118 days	128 days	92 days
Average time take for disposal from first hearing	70 days	1560 days	1340 days	1680 days
Average time taken for disposal from the date of Registration	117 days	1678 days	1468 days	1772 days

It would be seen that on an average disposal of a reference in respect of a sick industrial company – which we have seen comes to BIFR almost at terminal stages – takes 1678 days i.e. almost five years for sanction of a rehabilitation scheme or 1468 days or about 4 years for recommendation of winding up. By virtue of Section 25 of SICA every party aggrieved by an order of the Board can prefer an appeal to the AAIFR. Since its inception the Appellate Authority has upto 31st December, 1999 entertained 1796 appeals against various orders of the Board.

One of the reasons cited for delays in the disposal of registered cases by BIFR is its marked preference for exhausting all possibilities of rehabilitation which appears to stem from the belief that 'public interest' appearing in the Preamble to SICA can be sub served only if a company can be saved – the cost in terms of actual financial concessions / write offs / subsidies or opportunity cost in terms of continued sub-optimum use of productive assets and locked up financial resources not entering the Board's calculations at all.

BIFR's propensity to look for rehabilitation of sick companies has had three serious consequences viz.

a) It has lengthened the process
b) It has prevented BIFR from credibly using the threat of winding up under Section 20(4) to force consensus
c) It has given tremendous opportunities to unscrupulous promoters to delay matters.

The approach of the Board to the problem of sick companies has been marked by its persistence with existing management – although analysis have shown that managements are responsible for over 50% of the sickness in industrial companies. That is why managements are happy to be in the BIFR protection – registration of the case giving them immunity from action by creditors/labour to recover their dues – and play every trick of the trade to continue in that protection. Thus, the existing managements have a vested interest in prolonging the disposal process in the Board. This has been endorsed by the banks and financial institutions. State Bank of India, for example, have the following to say in this regard:

"…it has also been our experience that most of the borrowers that have approached BIFR, have done so to avoid legal action by their creditors and postpone lenders from taking timely remedial legal action for recovery of dues during which time current assets are run down. This is a major factor contributing to the result that rehabilitation packages get finalized in so few of the numerous cases registered by BIFR."

(c) Expeditious enforcement of the measures

The SICA enjoined BIFR to expeditiously enforce the speedily determined measures to deal with sick industrial companies.

BIFR's track record of implementing the remedial measures evolved after procrastinated endeavour has not been encouraging. Available data show that the revival plans as are evolved remain under implementation for years.

As at the end of December 1999, BIFR reported 223 schemes having been revived. Of these, 88 had taken more than 7 years. 149 or 67% had taken more than 5 years to revive.

On the same data 420 cases were reported to be under revival. Of these, more than 268 or 64% were 7 or more years old.

Serious doubts arise also about efficacy of the BIFR's 'enforcement' of the remedial measures. As of December 1998, BIFR had 428 revival schemes under implementation. In respect of only 26 schemes the performance was more than 75%. Another 31 had performance between 50% and 75%. There were 128 schemes where the performance was less than 50% and 243 schemes in respect of which the Board had no reports. If the last two categories are to be considered as doubtful of success, 87% of the cases under revival are in danger of failure and return to BIFR fold for another round of merry-go-round. Upto end- December 1999 BIFR had reported 479 schemes as having failed and reopened and fresh schemes sanctioned or cases recommended for winding up of companies.

As of December 1999 BIFR reported a total of 1003 pending cases. These contained 31 cases where schemes had failed and the cases reopened. Among the failed cases 19 were more than seven year old. In other words in 19 cases seven-year period has been infructuous and these were at the threshold of a further enquiry by BIFR.

Even where BIFR came to the conclusion that rehabilitation was not possible – it did so in respect of 666 cases upto December 1999 – it recommended only winding up of the company, though SICA gives BIFR a *carte blanche* to design any restructuring package that it deems fit – rehabilitation, mergers, acquisition, outright sale, workers' cooperative, asset restructuring, hiving off unproductive divisions and much more. BIFR has not considered options other than rehabilitation or winding up and that too through High Courts and not under Section 20(4), which permits sales of assets.

Recommendations for winding up have had the effect of merely prolonging the problems of all parties connected with the sick industrial company except their promoters. The liquidation process is again a lengthy one, riddled by further litigation on procedural wrangles requiring time, which the promoters have been known to utilize for stripping the companies of their assets. World Bank too in its report has observed that neither SICA nor BIFR recognise that incumbent management always has a great informational advantage compared to outside creditors and allow existing managements to run a bankrupt company during the period of reorganisation. Studies of companies under BIFR have shown that in the final reorganisation decision, secured creditors had to make large write offs on their exposure, while managements and shareholders did not. For example, information received from IDBI reveal that in the case of 7 units deregistered by BIFR it received Rs.23 crore as against total dues of Rs.40 crore – waiver of Rs.17 crore. In respect of aggregate dues from 13 fully repaid units the amount received was Rs.93 crore as against a total demand of Rs.199 crore – waiver of Rs.106 crore. These are cases where the units have paid off institution's dues as crystalised in BIFR Scheme. There are 21 more units in IDBI's fold, which are under rehabilitation, but are defaulting in payment of IDBI's dues even under the rehabilitation package. In these units IDBI's original exposure was Rs.298 crore. Waiver of interest and liquidated damages under BIFR scheme amounted to Rs.145 crore. In 30 cases the rehabilitation schemes of BIFR are reported to have failed. These have an original IDBI exposure of Rs.172 crore and BIFR crystalised dues at Rs.109 crore.

Section 33 of SICA empowers BIFR to impose penalties under the Act for offences related to violation of the provisions of the Act, violation of any order of the Board or giving false information to the Board. As of December 1998, BIFR has issued 60 show cause notices under Section 53 to promoters or CEO/MD of the company. Explanations in 52 of these were accepted by the Board. In one case where the Board wanted to proceed further, High Court's intervention was secured and action stayed.

The concessional regime implicit under a BIFR rehabilitation package being carried over such prolonged periods has involved sizeable costs, albeit the costs being distributed over a number of parties. There has been neither assessment of such costs nor any systematic cost benefit analysis of such revival packages-making revival an end in itself rather than an economically sound option.

The assessment of the role and functions of the BIFR as conveyed by some of the leading banks and financial institutions does not project a flattering picture. One has pointed out that it has been it's experience that most of the borrowers taking recourse to BIFR had done so only to avoid legal action by the creditors, thus precluding timely remedial legal action for recovery of dues, even as they (borrowers) continued to run down current assets. Another has pointed out that a number of defaulting borrowers had resorted to filing of cases before BIFR without adequate and valid reasons with a view to getting protection from legal procedures, both civil and criminal. Yet another financial institution has referred to the BIFR process as a 'bleeding death' of the unit concerned, a slow process that effectively thwarts attempts for speedy rehabilitation of units as well as for early realization of the dues by the lenders. The Central Vigilance Commissioner has had occasion to draw the Banking Division's attention to the need for scrapping of SICA, as part of the package of measures for bringing about better financial discipline among borrowers and reducing the scope for corruption in the financial sector.

Labour unions too have been unhappy with the process adopted by BIFR for dealing with sick industrial companies. Under Section 22 of SICA there is suspension of legal proceedings including recovery of dues. A large amount of workers' dues have accumulated as a result of non-payment of wages, salaries, provident fund dues, gratuity, ESI dues etc. In fact, the Thirty-sixth Session of the Indian Labour Conference had for consideration the subject of, 'Social Dimension of Industrial Sickness', which *inter alia* raised the question of continued relevance of BIFR to tackling the question of industrial sickness.

(d) Board of Experts:

Finally, the Board has never functioned as a body of experts. It has generally been manned by generalists drawn from various services of the government and retired chief executives of banks. The Board has never had top professional experts from the fields of management, accountancy, marketing, industrial planning, finance and so on. The Board has also not been able to draw upon expertise available outside. The operating agencies too have been mostly from among the financial institutions or banks, which by their very nature of exposure, training and management code are interested in quick surgical treatment of the problem involving change of management, sale of assets and realization of dues or one time settlement and cutting down losses. They are averse to processes where doubtful debts at concessional interest rates have to be carried in their books for years, only to find that ultimately the loss sustained is far higher than what an immediate forcing of the issue would have involved.

In the changed economic environment BIFR in its present form and with its present processes, is not conducive settlement of matters pertaining to sick industrial companies. With mergers, acquisitions, hiving off divisions, companies restructuring to focus on their strength becoming the order of corporate management, prolonged and costly efforts to revive terminally ill companies have to be discontinued. The rehabilitation of a sick company, if that is possible in economic terms, must be left to be attempted by FIs/banks and secured creditors strictly guided by cost benefit analysis of such efforts. If not, the secured creditors should have the right to sell the assets/ undertaking to recover their dues as is done by SFCs/SIDCs. The fund/assets released would generate employment, if not in the specific sick unit then elsewhere. The impact of such a measure on the wider labour market is not likely to be adverse.

Conclusion

The BIFR and AAIFR were conceived and set up in an era marked by regulated economic environment. Investment was at a premium and chanellised by a system of licences and permits. In such an environment the attempt was to protect the investment even with financial props when the market forces had decreed the investment as a failure.

If an unit runs into problem, the causes need to be identified quickly so that either a package of measures could be put together to secure the early revival of the unit – thus protecting the interests of the labour, of the lenders and of the promoters – or in the alternative facilitate early action for the closure of the unit and the recoveries of the dues to the labour as well as the lending institutions. The lenders of resources to the venture are perhaps best placed to take an early view on whether the unit could be revived – after all this could also be in their own self interests – or whether speedy action should be initiated for the recovery of their dues. The BIFR/AAIFR mechanism, has not, over the last twelve years, contributed to early resolution of the problems, either way. The process has only led to delay in decision making in most cases, a time period during which current assets are run down further, even as the lenders of resources and the labour are made to wait helplessly for the recoveries of amounts due to them. Such reining in of market forces could only lead to impairment of the investment climate.

In the circumstances it would be best to allow commercial considerations to prevail in these cases and wind up BIFR and AAIFR, through repealing SICA. These two organisations have a sanctioned strength of 42 Group A posts, 45 Group B posts, 72 Group C posts and 52 Group D posts. The total establishment cost of these two organisations is budgeted at Rs.3.12 crore while the total Budget provision is for Rs.8.68 crore.

V. NATIONAL SAVINGS ORGANISATION

The National Savings Organisation (NSO) an attached office of the Department of Economic Affairs was set up in the late 1940s, to assist in the mobilisation of small savings, arrange for publicity in regional languages so as to promote saving habit in rural areas and to undertake overall coordination work with the state governments, post offices, banks etc.

The NSO is headed by the National Savings Commissioner, with headquarters at Nagpur. He is assisted by one Joint Commissioner and three Deputy Commissioners and support staff at headquarters. Its field organisation comprises 26 Regional Directors of National Savings functioning from state capitals and big cities and 32 field officers all over the country. The total strength of the organisation is 1191 of which 31 are Group A officers. Its total annual budget is Rs.20 crore of which Rs.1.38 crore is on publicity.

The various small savings schemes promoted by the NSO are Post Office Savings, Post Office Time Deposits, Post Office Recurring Deposits, Post Office Monthly Income Accounts, National Savings Scheme 1992, Kisan Vikas Patra, National Savings Certificates VIII Issue, PPF Scheme, Deposit Schemes for retiring Government employees and Retiring employees of public sector companies.

‘Small Savings’ as the resources mobilised under these schemes are called, are shared with state governments as part of resource mobilisation for plan schemes. Out of the net small savings collections, every year loans have been advanced to state governments to meet Plan expenditure. Up till 1.4.2000, 75% of the net collections were advanced to states as loans through investment in State Securities. Since then, the states share in the net small savings collections has been raised to 80%.

Over the years small savings have become a very important source of funds for the state governments to meet their annual plan outlays. For example, in case of West Bengal, small savings account for 77% of the plan outlay in 1999-2000 compared to 45% in 1996-97. In Maharashtra the relative percentage are 33% against 12%, in case of Punjab they are 63% against 33%, etc. Besides, mobilization of small savings is not uniformly attempted in all states. Eight states, for example, accounted for more than 58% of the gross small savings collections in 1998-99.

For the year 1999-2000, the net small savings collections were over Rs.38,000 crore and states were released Rs.27, 000 crore – an increase of Rs.3200 crore over the previous year.

Since these funds are raised with the guarantee of Government of India, their mobilization does not depend on the financial soundness of the states. This high cost borrowing thus becomes an easy option, compared to other options like raising of taxes, effecting economy in expenditure and so on. All the states now have Directorates of Small Savings for popularizing the various small savings schemes in their states. These directorates too have field organization in the form of District Savings Officers and a battalion of agents to tap the savings. In fact, so critical has become this source of funds for states' Plan efforts, that targets of small savings mobilisation are handed down to the collectors who, naturally, put the entire revenue collecting machinery on the small savings mobilisation drives. The state governments have also shown ingenuity and willingness to embellish the savings mobilisation drives with incentives to agents and allurements to subscribers in the form of schemes with the contours of lotteries where each person putting a certain minimum investment gets a ticket to participate in a draw with highly attractive prizes which include housing board flats, cars and cash. Twenty-one states have reported having 1871 ministerial staff and 1533 field officers devoted to mobilisation of small savings. Their total expenditure on establishment and incentives to agents and investors exceeded a whopping Rs.166 crore. The publicity expenditure was in the region of about Rs.45 crore.

In view of these developments, it is felt that there is little justification for continuing the National Savings Organisation with its all-India structure. It is, however, recognized that a small organisation of expert officers to collect and collate data in regard to small savings, to ensure timely supply of securities to post offices, to generate studies and provide policy inputs in regard to small savings instruments, their tenures, interest rate structure, rules governing withdrawals etc. may be necessary. This objective will be served by having a smaller office at the headquarters with no more than 6-8 officers, 4/5 research officers/assistants and about 10-15 support staff. The regional directorates and all field offices should be abolished. The office of the Director should be fully computerised so as to dispense with manual compilation. Training programmes to be conducted by the Directorate should be limited to state level officers only and should be carried out in association with established institutions on the lines of management development programmes.

Some other aspects of the Small Savings schemes also deserve attention.

First among these is the question of engaging agents to mobilize small savings. Conceptually, agents were considered essential because it was apprehended that small savers would shy away from the procedural requirements of depositing their savings in post offices or banks. Thrust of the schemes on reaching poorer and uneducated masses was also a reason why agents were considered a necessity. These objectives have not been sub served. Agents are now mostly concentrating on urban and metropolitan areas and that too on large subscribers. Agents dedicated to mobilizing very small savings among the poor are few and far between. The Mahila Pradhan Kshetriya Bachat Yojana (MPKBY) directed toward gainful employment to women has also not yielded the desired results as the scheme is mostly worked by male relations in the name of a lady in the family. There are also reports that the agents do not canvass any business but have a liaison with postal employees, which ensures their stamp being affixed even on an investment directly received by the post office. (This is reportedly being tackled with distinct coloured forms for direct subscription and subscription through agents). There are also reports that agents share their commission with the subscribers (as an incentive) and postal employees (as a facilitation fee). The rates of commission range from 1% to 5% (recently reduced to 4%) and are too high given the kind of effort that is put in by the agents to secure investment and push up the cost of these funds.

In the circumstances, and also considering the increasing role of the states in promoting small savings, the appointment of agents and payment of commission to them by the central government should be discontinued leaving it to the states to extend suitable incentives for promoting small savings.

Another aspect, which needs a study, is to determine which instruments of small savings should continue. Data on collection of small savings shows that of the 10 schemes under which small savings are mobilized, only six appear to attract subscriptions accounting for 99.5% of the net small savings collections. The cost-benefit assessment of continuing small savings schemes should be undertaken and redundant schemes terminated. Besides, government also needs to take cognizance of possible abuse of small savings instruments available in large denominations. Government abolished Indira Vikas Patra as it was suspected to have been widely abused being a bearer document. Kisan Vikas Patra is also reportedly open to abuse. One cannot claim that it is directed towards small farmers when the instrument is available in a denomination of Rs. 50,000. Moreover, in this scheme there is no provision for deduction of tax at source possibly on the grounds that the contributions would mostly be farmers and non-income tax assesses. A quick sample survey needs to be undertaken covering a dozen centres where the collections under this scheme are quite substantial to determine where the contributors are mostly genuine small savers or whether the scheme, with its attractive interest rates, non-deduction of tax at source and early transferability is being taken advantage of by large savers and unscrupulous elements. It is also necessary to evaluate the rules governing deposit/ withdrawal of small savings to ensure that investors do not manipulate procedures to earn high interest rates on short term deposits as was reportedly feasible under Recurring Deposit Scheme. Equally necessary is to examine whether interest rates offered under the scheme, are far out of alignment with the interest rate regime prevailing in the market.

All these aspects need to be urgently studied by the government and necessary corrective actions taken before the next financial year.

VI. INDIAN INVESTMENT CENTRE

The Indian Investment Centre (IIC) was established as an autonomous organization in 1960 with the objective of doing promotional work abroad to attract foreign investment in India and assisting Indian investors in promoting joint ventures abroad. In addition to the head office at New Delhi, the India Investment Centre had also set up offices abroad at New York, London, Abu Dhabi, Frankfurt, Singapore and Tokyo. A Chief Commissioner (Investments & NRIs), who would also be the ex officio Chairman of the Indian Investment Centre was appointed in 1995, though the Cabinet decision to this effect was taken in September 1991.

Compulsions of economy in expenditure, particularly on the foreign expenditure side led to the closure of foreign offices of the Indian Investment Centre in 1991, while reservations about its effectiveness made government decide in 1997 that the head office at New Delhi should also be wound up. However, the reduction in investment flows as well as in foreign aid, in the post Pokhran scenario, led to a rethinking on the subject. It was also then felt that there was a need to spread the message of ‘duty towards nation’ to ensure increased flow of foreign investment from NRIs. Consequently, an ambitious programme for restructuring the IIC was drawn up envisaging an expenditure of nearly Rs. 30 crore in the years 1999-2000 and 2000-2001 and a recurring expenditure level of Rs. 12 crore per annum in the subsequent period. Currently IIC has sanctioned staff strength of 126 (actual number in position 87) and an annual budget of around Rs.2.5 crore. The allocation of Business Rules was amended in 1999, placing the Chief Commissioner (NRIs) in the Ministry of External

Affairs. But the appointees as Chief Commissioner, Investments and ex officio Chairman IIC have continued to function under the Department of Economic Affairs.

With the advent of the economic reforms, there has been a steady surge, except for a short period – 'post Pokhran', in the investment flows to India. That in spite of this steady surge only 3 Indian/NRI investors had sought IIC's support for finding partners for joint ventures in India in 1999-2000 clearly establishes that those wishing to take advantage of the liberalisation scenario in India and make investments have successfully made use of the expanding network of consultants and local partners not only for getting clearances but also for implementing the projects. It is thus obvious, that the task of providing liaison work and escort services to prospective investors, NRIs as well foreign investors, is best left to private initiatives.

This does not however mean that there is no need at all for a body like the Indian Investment Centre. Even after 10 years of reform process, the style of functioning in many ministries has still not changed significantly and obtaining information even of a non-classified nature continues to be a major problem. This problem acquires an added dimension whenever there are major changes in the procedures followed by the different ministries. It will therefore be necessary to have a compact officer oriented organisation mainly for the purpose of collecting up-to-date information and data on procedures followed by the different ministries for giving various clearances and for making these available to all investors who seek such information be they foreign investors, NRIs or even domestic investors. This office could also undertake promotional campaigns with a view to securing larger inflow of investment. It could undertake comparative studies vis-a-vis other developing countries so as to determine the lines on which India should take action for maximizing investment inflows. Provision of liaison and escort services should be more the exception than the rule.

This officer oriented organisation could be headed by an Executive Director in the rank of an Additional Secretary/Joint Secretary, and consist of four or five Advisors/Consultants in the rank of Directors, each supported by one Economic Investigator and the office as a whole having one Administrative Manager with some common support staff. The total staff strength may not exceed 20 compared to the present staff strength of 126. More importantly this outfit should seek to function as a paperless office, with the office being fully equipped with all IT facilities including a website of its own and all officials being fully conversant with the use of these facilities. All existing personnel who cannot be fitted in the restructured organisation could be treated as 'Surplus' and extended appropriate retirement/separations packages.

As far as the location of this office is concerned, two options suggest themselves. The Department of Industrial Policy Promotion could be one option as

FIPB is located in that department. The second option is the Department of Economic Affairs which has been functioning and will continue to function as the main think tank for advising on the reform process, not only in areas like banking, insurance, capital markets, tax and tariff reforms areas where the responsibility for implementation is vested in the Finance Ministry itself but also in regard to the deregulation and opening up in the various other ministries as well. The restructured Indian Investment Centre should therefore continue to function under the Department of Economic Affairs with Secretary, DEA being its ex-officio Chairman.

Given the tremendous advances in communication facilities, it should be possible for all ministries to interact with each other, with IIC acting as a focal point and respond, without delay, to all enquiries, wherever these may be received. It will not therefore be necessary for any other ministry to have a separate cell or set of officers for discharging such functions and all positions created in these ministries for this purpose, including those of Chief Commissioner (NRI & Inv), Additional Secretary and other staff in MEA, should be abolished. Equally it will not be necessary for IIC to have any offices abroad – Indian embassies abroad could discharge these functions with their existing staffing strength by liaising with IIC.

Government could also consider encouraging NRIs as a group to set up an office at New Delhi, to liaise with Government not only on matters relating to investments but also on various other issues of importance to them. Given their track record abroad, it is a fair assumption that the NRIs would be able to do an excellent job and what they would need by way of encouragement, will not be any resource support from government but an offer of recognition. Such an office, could, through liaising with IIC, function as a clearing house for all requests for information and also provide escort services to all investors who seek it.

VII. MINTS AND PRESSES

Four mints at Mumbai, Calcutta, Noida and Hyderabad, two Currency Note Presses at Nasik and Dewas, two Security Printing Presses at Nasik and Hyderabad and the Security Paper Mill at Hoshangabad, nine units in all, with a total work force of about 25,000 and an annual turnover of over Rs.1000 crore are managed by the Currency & Coinage division of the Department of Economic Affairs. This division functions under a Joint Secretary who is also in charge of European Economic Community and Administration Divisions.

Of the four mints, the one at Noida is a comparatively new one having been set up in 1988, with stamping facilities only. The other three are composite mills with facility for production of blanks as well as for stamping. Those at Mumbai and Calcutta are being modernized while in one at Hyderabad, an altogether new unit has been set up at a different location (Cherlapally) and managed by a workforce of about 250, drawn from the parent unit at Hyderabad. Against an indent of 8 billion pieces in the current year, the 4 mints, after taking into account the modernisation will have a total capacity of nearly 4.7 billion pieces. But the actual production and productivity levels are quite low and will be seen form the statement below:

Unit	Workforce		Production (in million piece)		Productivity per worker (in lakh pieces)	
	Industrial Workers	Others	1998-99	1999-2000	1998-99	1999-2000
NOIDA (only stamping)	163	111	810	901	29.6	32.9
Calcutta	1942	528	525	660	2.1	2.7
Hyderabad	685	496	471	620	4.0	5.2
Mumbai	1871	239	512	631	2.4	3.0
Total	**4661**	**1374**	**2318**	**2812**	**3.8**	**4.3**

Even though, the productivity per worker at Noida, where only stamping is done, is strictly not comparable with the productivity in other three units which are composite mints, it is obvious that the productivity of Noida unit is several times more than in the other three units. Even among the three units, it is seen that the productivity at the Hyderabad unit is double that the Mumbai Unit and nearly triple that at the Calcutta unit. The mints at Calcutta, Hyderabad and Mumbai are heavily over staffed and there is a need, now that the units have been fully modernized, for a drastic downsizing of the work force, say by at least 60 to 70 per cent.

As will be seen from the statement below, the cost of production in these units compares quite unfavourably with the cost of imports.

Cost of import/production of Coins

(Rs. Per coin)

Denomination	Import	Mumbai	NOIDA	Hyderabad	Calcutta
Rs.5	1.62	3.5	2.09	3.98	3.98
Rs.2	1.31	2.3	1.15	2.37	1.91
Rs.1	0.50	0.9	0.57	0.79	0.75
50 Paise	NA	0.6	0.47	0.61	0.55
25 Paise	NA	NA(0.6)*	0.38	0.48	0.37
10 Paise	NA	NA(0.4)*	NA	NA	0.34

*relate to 1997

Though the output of the units at Hyderabad, Mumbai and Calcutta is far below the total capacity, it is seen that a sum of Rs.9.47 crore was paid as incentive to workers in 1998-99 as against the wage bill of Rs.54.21 crore! It is also seen that in 1998-99, there was an overtime payment of Rs.18.4 crore. All these clearly establish that the targets for production are set at exceedingly low levels, a clear indication of the bargaining power of the workers' union in these units.

Currency Note Presses

Of the two Currency Note Presses managed directly by the government, while at Nasik all ten lines of production have been fully modernized, at Dewas only two of the five lines of production have been modernized. The total capacity of these two units with nine hours working per day is about 5.8 billion pieces. The two Bank Note Presses set up recently, one at Mysore and the other at Salboni by Bhartiya Reserve Bank Note Mudran Nigam of the Reserve Bank of India, have a capacity of 9.3 billion notes per annum, with eight hours single shift working. Against this combined capacity of over 15 billion pieces, the current demand, particularly with the phasing out of the one rupee, two rupee and five rupee notes, is only 10 billion pieces. This clearly establishes that there is not only no case for modernizing the remaining three lines of production at Dewas but also that production in these three lines could well be phased out.

As will be seen from the following table, which sets out the workforce and productivity in the four presses, the productivity of the two government presses, not withstanding modernization, is abysmally low when compared to that in the other two.

Workforce and Productivity in Government/ RBI Currency Presses (1999-2000)

Note Press	Workforce	Production (million pieces)	Productivity Per employee (million pieces)
Government			
Currency Note Press, Nasik	4650	2744	0.59
Bank Note Press, Dewas	2549	2641	1.03
RBI			
BRBMNL, Mysore	504	2792	5.54
BRBMNL, Salboni	525	1928	3.48

This statement clearly establishes the need for a drastic downsizing, say at least 70%, in the workforce of the currency presses at Nasik and Dewas. As, in the mints, in these presses also while productivity is quite low, overtime payments have been quite high at Rs.40.16 crore during the last year compared to the wage bill of Rs.55.41 crore. With RBI being the monopoly buyer of the out put, the question of these four presses, all in the “public” sector, competing with each other does not arise. At the same time, the management of two units by government and the other two by the Bhartiya Reserve Bank Note Mudran Nigam could pose problems of coordination in matters like import of paper etc. in the years to come. It will be of advantage to bring all four presses under one common management.

The Security Paper Mill located at Hoshangabad is an old unit having been set up in the year 1967. This mill has an installed capacity of 4500 tonnes per annum. However, in the last three years the production has been around 2900 tonnes, i.e. 66% of the capacity. The productivity per employee is not only low but has also been going down in the last three years from the 1.63 m. tonnes in 1997-98 to 1.46 m. tonnes in 1998-99 and 1.39 m. tonnes in 1999-2000 while the cost of production during this period has gone up form Rs.1.93 lakh per m. tonne to Rs.2.30 lakh per m. tonne. With the steady increase in demand, nearly 75% of the paper required for printing of bank notes is now imported. The quality of the paper produced at the Hoshangabad unit is reported to be quite inferior when compared to the imported paper.

Of the two Security Printing Presses the one at Saifabad at Hyderabad has a work force of 879 while the one at Nasik has nearly 6200. The productivity per employee in 1999-2000 in terms of value of production was Rs. 2.07 lakh per annum at Nasik press and Rs. 3.6 lakh at Hyderabad press. If the comparison of the productivity of the two bank note presses directly functioning under the Government with the two new units set up under the RBI is any guide, then possibly in these two security printing presses also the total workforce could be considered as very large, exceeding the optimum requirement by at least a factor of four.

As in the case of some of the units discussed earlier, in the India Security Press, Nasik also the overtime payment in 1998-99 was quite high at Rs.30.55 crore compared to the wage bill of only Rs.25.03 crore in that year.

Both units produce variety of products, numbering over 200, catering to the requirements of the Department of Posts, National Savings Organisation, the Ministry of External Affairs (Passports), non-judicial stamp papers, etc. That the Department of Post has been quite unhappy both with the pricing of its requirements and also in regard to adherence to the schedule of delivery is evident from their decision to farm out part of the requirements to the private sector presses. If on grounds of cost advantage and timely delivery, the Department of Posts shifts a major part of its requirements to the private sector then to that extent the output of the two security presses will go down further drastically.

In the light of the above factual position, it would be desirable to take action on the following lines:

1) Considering that the work force in all the units other than at the mint at Noida, is far in excess of the optimal levels, there is need for a substantial downsizing of the work force in these eight units. Pending the determination of the surplus personnel at each level in these units, by a professional body, a liberal retirement/separation package, on the lines recommended by the Commission in the Second Report, needs to be introduced straightaway in these units.
2) Considering the low levels of productivity and output, even where lines of production have been modernised, there is also a need for improving managerial efficiency. In particular, its needs to be examined to what extent these units could be freed from the usual government procedures, which are often time consuming, be it in making appointments, floating of tenders etc.
3) As the current levels of production in these eight units are far below the installed capacities, there is no case for payment of incentives or overtime allowances. This should be stopped.
4) As the present installed capacity of the four bank note presses is around 15 billion notes, as against the indent of only 10 billion notes, the production in the three lines which are yet to modernised at Dewas could be phased out.
5) The present arrangements, under which two bank note presses function directly under the Government while the other two are with the Bhartiya Reserve Bank Note Mudran Nigam of the RBI, are not conducive to taking coordinated action, in matters like procurement of security paper etc. It will therefore be advisable to transfer the two units at Dewas and Nasik to the control of Bhartiya Reserve Bank Note Mudran Nigam.
6) In the Security Paper Mill at Hoshangabad production is very low and the quality of the product quite poor. Even if it is to be modernised, reportedly the scope for expansion of the capacity is very limited. In this scenario, if it is considered that in an item like bank note paper, excessive dependence on imports should be avoided that objective can be achieved only through setting up a new unit with a much larger capacity than the one at Hoshangabad. Considering that the only ‘buyer’ would be the Bhartiya Reserve Bank Note Mudran Nigam (given the

earlier recommendation) ideally this unit should be set up by the Bhartiya Reserve Bank Note Mudran Nigam itself. If it has to be in the private sector, then that would have to be on the basis of a clear statement of intentions for procurement from the proposed unit by the Bhartiya Reserve Bank Note Mudran Nigam. When such a proposal takes shape, the production at the SPM at Hoshangabad could be phased out or in the alternative the unit privatised.

7) Through a proper separation of the 'production-mix' at the Nasik and Hyderabad Security Printing Presses, the unit at Hyderabad could be dedicated exclusively for meeting the requirements of the Department of Posts, and the management of the unit transferred to that Department of Post.

8) At present the payment for the Bank Note Presses are made on a cost plus basis, while for the mints it is on the basis of the face value of the coins. This completely distorts the working results, showing surpluses even while productivity is low and cost of production quite high. The system of payments by the RBI would need to be changed to reflect correctly the levels of efficiency and productivity of the mints and presses.

9) If it is not found feasible to take effective steps for improving managerial efficiency, within the framework of rules and regulations as applicable for units directly functioning under government departments, then the option of placing ISP Nasik and the four mints under a corporate body could be explored. Whether corporatisation of the mints would require an amendment to the Indian Coinage Act would also need to be examined.

VIII. OTHER DIVISIONS;

(a) FUND BANK DIVISION:

The Fund Bank Division deals with World Bank, IMF, IDA, G-24 meetings, World Bank Assistance to different projects in various sectors, IFC, IFAD, India Development Forum Meetings etc.

An Additional Secretary currently heads the Division. As the officer in charge of this division and the Secretary go on tour together to attend the meetings of IMF, World Bank and ADB, it will be more appropriate if this division is headed by a Joint Secretary as was the practice in the earlier years, so that the Additional Secretary who could head some of the other areas of work, could stand in for the Secretary whenever the latter is away on tour.

(b) CONTROLLER OF AID ACCOUNTS AND AUDIT:

This division deals with disbursement of loans/credits from different countries, lays down accounting procedures, arranges for repayment of loans, interest thereon, export promotion audit etc. areas of work calling for special expertise.

The work in this division is being computerized. With computerization and upgradation of skills, the staff strength could be downsized. An expert committee could lay down the special training needs of the staff as also the qualifications and experience required at different levels for future recruitment.

(c) CAPITAL MARKETS AND ECB DIVISION:

This division has been responsible for policy formulation and regulation there under of capital issues, capital markets and external commercial borrowings. With the progressive liberalization of the controls and institution of SEBI and relaxation of conditionalities for external commercial borrowings and delegation of powers to RBI, the workload in the division has drastically shrunk. At the moment, however, there is still some unfinished agenda on reforms and legislative work in regard to say, international norms and codes of management of financial markets, dealings in government securities or jurisdictional demarcation in certain areas between SEBI, Company Law Board, RBI etc. It is expected that this action should be completed within the next 2/3 years. At the end of 3 years this division would no longer be necessary and small residual work can be handled in another division say Foreign Trade and Investments.

(d) IES, JAPAN AND PSE DIVISION:

This division handles work relating to cadre management of Indian Economic Service; Japan which is the largest donor of aid; and public sector enterprises – disinvestments process. The last item has since been transferred to a separate ministry.

(e) FOREIGN TRADE AND INVESTMENT DIVISION:

This division handles work relating to foreign trade including WTO negotiations etc. and foreign investments. The workload of this division has shrunk with the bulk of the foreign investments going under automatic route. The residual policy work needs to be reassessed. The workload in regard to bilateral trade with East European Block and Exim Policy restrictions has also shrunk with the government involvement getting reduced in the changed scenario.

This division also looks after the NRI Cell and the Indian Investment Centre. In the changed economic environment there is no need for any special dispensation for NRIs. If at all, it may be subsumed in the overall investment policy.

This division with its reduced workload can possibly be merged with IES and Japan Division immediately.

(f) ADB AND INFRASTRUCTURE DIVISION:

The division deals with Asian Development Bank, United Nations and its Programmes, USAID, Indo-US Joint Commission, Exchange Control and Infrastructure including Railways, Telecommunications, Roads, Ports and Civil Aviation.

With the passage of FEMA and the framing of regulations there under the workload of exchange control would shrink. In fact, there would be no need for a separate exchange control set up in the DEA.

The ADB and Infrastructure Division would, however, continue to have sufficient work to remain an independent division. It could, possibly take work from other division in lieu of the exchange control work which will cease.

(g) EEC DIVISION:

This division deals with assistance from European Economic Community (EEC) as well as from West European countries and along with the Currency & Coinage Division constitutes the authority of one Joint Secretary, the major workload being management of currency and coinage. Once the restructuring of the mints and presses on the lines recommended elsewhere, is put through, the residual work could be transferred to another division and the post of Joint Secretary, surrendered.

(h) BUDGET DIVISION:

Budget Division is currently headed by a Joint Secretary (it was earlier headed by an Additional Secretary presently the post is temporarily down graded). This is responsible for preparation of the budget of the central government – other than Railways, besides supplementary grants, public debt and National Savings Organisation. So far as the organisation at the secretariat is concerned, there is likely to be no diminution in the functions and responsibility and it should retain its present structure and be headed by Joint Secretary/Additional Secretary.

Annexe-I

MINISTRY OF FINANCE
(VITTA MANTRALAYA)

A. Department of Economic Affairs (Arthik Karya Vibhag)

I. EXCHANGE CONTROL

1. Administration of the Foreign Exchange Regulation Act, 1973 (46 of 1973 other than enforcement work mentioned under the Department of Revenue (Rajaswa Vibhag).

2. Foreign Exchange Budgeting.

3. Policy relating to exchange rates of Rupee.

4. Control of the foreign exchange resources including scrutiny of proposals for imports from the foreign exchange point of view.

5. Foreign and Non-Resident Indian Investment (excluding Direct Foreign and Non-Resident Indian Investment in Industrial and Service projects).

6. Approvals for commercial borrowing abroad, including terms and conditions therefore.

7. Import and Export of gold and silver.

II. FOREIGN AID FOR ECONOMIC DEVELOPMENT.

8. All matters relating to:-
   - (a) India Consortium.
   - (b) Loans, credits and economic assistance from foreign countries.
   - (c) Loans and credits from International Bank for Reconstruction and Development, International Monetary Fund, Asian Development Bank, European Economic Community and Export-Import Banks, etc.
   - (d) Ford Foundation and Rockfeller Foundation.
   - (e) International Development Research Centre of Canada (IDRC).
   - (f) Commonwealth Fund for Technical Cooperation (CFTC).

9. Technical and Economic assistance received by India under:-
   - a) The Technical Cooperation Scheme of the Colombo Plan.
   - b) The United States Point Four Programme.
   - c) The United Nations Technical Assistance Administration Programmes.
   - d) Ad-hoc offers of technical Assistance from various foreign countries.

10. Technical assistance given by India to the member countries of the Colombo Plan under Technical Cooperation Scheme of the Colombo Plan.

11. All matters relating to the meetings of the Colombo Plan Council and the Consultative Committee of the Plan.

12. All matters relating to credits extended by Government of India to other countries except Nepal, Bhutan and Bangladesh.

13. Technical assistance received by India or given to foreign governments, international institutions and organisations, except such as are relatable to subjects allocated to any other Department.

14. All matters concerning United Nationals Development Programme (UNDP) including Programmes or Projects funded out of UNDP Budget.

15. Policy issues relating tot the United Nations Fund for Population Activities (UNFPA) and contributions to the specialised agencies of the United Nations and other U.N. Bodies.

16. All matters relating to the Foreign Volunteers Programmes in India including the United Nations Volunteers (except outgoing volunteers under UNV).

III. INTERNAL FINANCE

17. All matters relating to currency and coinage, including:-

a) The Security and Currency Printing Presses, the Security Paper Mills and the Mints including the Assay Department and Silver Refinery, Gold Refinery, and Gold collection-cum-delivery centres.

b) Production and supply of Currency Note Paper, Currency and Bank Notes and Coins postal stationary, stamps and various security forms.

18. Functions of the Treasurer or Charitable Endowments for India.

19. Administration of Securities Contracts (Regulation) Act, 1956 (42 of 1956).

20. Regulation and Development of Stock Exchange.

21. New Investments and Securities for mobilising resources from the Capital Markets

22. Investment Policy including investment policy of Life Insurance Corporation of India, Unit Trust of India and General Insurance Corporation of India.

23. Investment pattern for Employees' Provident Fund and other like Provident Funds.

IV. BUDGET

24. Ways and means.

25. Preparation of Central Budget other than Railway Budget including supplementary excess grants and when a proclamation by the President as to failure of Constitutional machinery is in operation in relation to a State or a union territory, preparation of the Budget of such State or Union territory.

26. Market Borrowing Programme of Central and State Governments and Government Guaranteed Institutions.

27. Floatation of Market Loans by Central Government and issue and discharge of Treasury bills.

28. Administration of the Public Debt Act, 1944 (18 of 1944).

29. Fixation of interest rates for Central Government's borrowings and lending.

30. Accounting and audit procedures including classification of transactions.

31. Financial matters relating to Partition, Federal Financial integration and Reorganisation of States.

32. Contingency Fund of India and Administration of the Contingency Fund of India Act, 1950 (49 of 1950).

33. Monitoring, budgetary position of Central Government.

34. Sterling Pensions Transfer of responsibility of U.K. Government and actual calculations of liability involved.

35. Public Provident Fund Scheme.

36. Finance Commission.

37. Resources of Five Year and Annual Plans.

38. National Deposit Scheme, Special Deposit Schemes, Compulsory Deposit Scheme, Other Deposit Schemes of Central Government.

39. Small Savings, including the administration of the National Savings Organisation.

40. Duties and Powers of the Comptroller and Auditor General.

41. Laying of Audit Reports before the Parliament under article 151 of the Constitution.

42. Financial emergency.

V. MISCELLANEOUS ACTS

43. Government Savings Bank Act, 1873 (5 of 1873).

44. Section 20 of the Indian Trustees Act, 1882 (2 of 1882) dealing with investments.

45. Metal Tokens Act, 1889 (1 of 1889).

46. Charitable Endowments Act, 1890 (6 of 1890).

47. Indian Coinage Act, 1906 (3 of 1906).

48. Indian Security Act, 1920 (10 of 1920).

49. Currency Ordinance 1940 (4 of 1940).

50. International Monetary Fund and Bank Act, 1945.

51. Finance Commission (Miscellaneous Provisions) Act, 1951 (33 of 1951).

52. Government Savings Certificates Act, 1959 (46 of 1959).

53. Compulsory Deposit Scheme Act, 1963 (21 of 1963).

54. Unit Trust of India Act, 1963 (52 of 1963).

55. Legal Tender (Inscribed Notes) Act, 1964 (28 of 1964).

56. Asian Development Bank Act, 1966 (18 of 1966).

57. Public Provident Fund Act, 1968 (23 of 1968).

58. Small Coins (Offences) Act, 1971 (52 of 1971).

59. Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (56 of 1971).

60. Additional Emoluments (Compulsory Deposit) Act, 1974 (37 of 1974).

61. African Development Fund Act, 1982 (1 of 1982).

62. African Development Bank Act, 1983 (13 of 1983).

63. Securities and Exchange Board of India Act, 1992 (15 of 1992).

VI. INSURANCE DIVISION

64. Policy relating to general insurance; administration of the Insurance Act, 1938 (4 of 1938) and General Insurance Business (Nationalisation) Act, 1972 (57 of 1972); Subsidiaries of the General Insurance Corporation.

65. Policy relating to life insurance; nationalisation of the Life Insurance Business; Administration of the Life Insurance Corporation Act, 1956 (31 of 1956); Life Insurance Tribunal.

66. Controller of Insurance.

67. The responsibility of the Central Government relating to matters concerning centrally administered areas in respect of any of the entries from 65 to 67 above.

VII. MANAGEMENT OF THE INDIAN ECONOMIC SERVICE

68. Centralised aspect of managing the Indian Economic Service and all matters pertaining to training, career planning and manpower planning for that service.

VIII. ECONOMIC ADVICE

69. Advice on matters, which have a bearing on internal and external aspects of economic management including prices.

70. Credit, fiscal and monetary policies.

IX. BANKING

71. All Indian banks, whether nationalised or not.

72. All foreign banks so far as their operations in India are concerned.

73. All matters relating to the Reserve Bank of India.

74. All matters relating to Cooperative Banking.

75. All matters relating to National Bank for Agriculture and Rural Development and long-term financial institutions excluding Unit Trust of India, Life Insurance Corporation, General Insurance Corporation.

76. Chit Fund and other non-banking companies accepting deposits.

77. Other matters relating to Banking in India.

78. Administration of all statutes, regulations and other laws connected with entries from 72 to 78.

Annexe-II

Statement showing Number of Officers in the Department of Economic Affairs (Hqrs.)

Level	Designation	No. of Posts
Secretary	Secretary	
	- Eco. Affairs	1
	Special Secretary	2
	Chief Economic Adviser	1
Additional Secretary	Additional Secretary	2 (Being operated at JS Level)
	Senior Economic Adviser	2
Joint Secretary	Joint Secretary	9
	CA& AA	1
	Economic Adviser	2
	Adviser (SAG)	2
	Chief Controller of Accounts	1
Director/Deputy Secretary	Director/ Deputy Secretary	38
	Addl. Eco. Adviser (JAG)	3
	Deputy Eco. Adv./Dir./Jt. Dir/ Asst. Eco & Stat. Adviser	11
	Addl. Budget Officer	1
	Jt. CA&AA	1
	Labour Welfare Commissioner	1
	Senior PPS	2
	Controller of Accounts	2
Under Secretary	Under Secretary	60
	Press Manager	1
	Deputy Director	17
	OSD/Sr. Analysts/Dy CA&AA/PPS	14
‘A’ grade junior and Other Officers	Research Officer	12
	Accounts Officer	11
	Librarian	1
	Jr. Analyst	2
	Gr. ‘B’ Stenographer	28
	Section Officers	55
	Economic Officer	12
	Others	14
	P& Accts. Officer	11
Other staff	UDCs, LDCs etc.	1204

NB: *The staff strength of Attached/Subordinate Offices like NSO, BIFR, and AAIFR, as also of the various mints and presses are not included in the above table.*