Annual Report 2006-07

Ministry of Finance
Government of India

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FOR PUBLIC CONTACT PURPOSE:

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Ministry of Finance

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Introduction

The report reviews the activities of the Ministry of Finance during the year 2006-07. The Ministry is responsible for the administration of the finances of the Central Government. It is concerned with economic and financial matters affecting the country as a whole, including mobilization of resources for development. It regulates the expenditure of the Central Government, including the transfer of resources to States. This chapter gives a synoptic view of the important activities of the Ministry during the year 2006-2007.

The Ministry comprises of the four Departments namely:

- Department of Economic Affairs;
- Department of Expenditure;
- Department of Revenue; and
- Department of Disinvestment.

I. DEPARTMENT OF ECONOMIC AFFAIRS

Economic Growth

The economy continued to show high growth momentum during 2005-06 and 2006-07. As per the Quick estimates of National Income for 2005-06 released by CSO, the Gross Domestic Product (GDP) at factor cost (at constant 1999-2000 prices) grew at 9.0 per cent in 2005-06 compared to 7.5 per cent in 2004-05 and 8.5 per cent in 2003-04. The agriculture and allied, industry and services sectors grew by 6.0 per cent, 9.6 per cent and 9.8 per cent respectively during 2005-06.

The real growth of 9.0 per cent in GDP during 2005-06 has been achieved mainly due to growth in manufacturing (9.1 per cent), Construction (14.2 per cent), trade, hotels, transport, storage and communication (10.4 per cent), and Finance, insurance, real estate and business services (10.9 per cent).

The Advance estimates of National Income for 2006-07 (at constant 1999-2000 prices), released by the Central Statistical Organisation indicate that the real growth of GDP is likely to be of the order of 9.2 per cent in 2006-07. The advance estimates of growth of agriculture and allied, industry and service sectors are estimated at 2.7 per cent, 10.0 per cent and 11.2 per cent respectively.

The savings rate as percentage of GDP at current market prices was estimated to be 32.4 per cent in 2005-06 as compared to 31.1 per cent in 2004-05 while the gross domestic capital formation was 33.8 per cent in 2005-06 as compared to 31.5 per cent in 2004-05. The increase in the investment rate has sustained the industrial performance and reinforces the outlook for growth.

Development in Prices and Inflation

Annual point-to-point inflation rate in terms of the Wholesale Price Index (WPI) decreased from 5.1 per cent at end-March 2005 to 4.1 per cent at end-March 2006. The year 2006-07 started with an inflation rate of 4 per cent on April 1, 2006 which was followed by a mixed trend until end of July 2006 when it reached 5.1 per cent and it remained below 5.7 per cent till December 16, 2006. The inflation touched 5.9 per cent on the week ending December 30, 2006. This was significantly higher than 4.6 per cent recorded a year ago. On February 24, 2007, it was 6.1 per cent as against 4.2 per cent last year. Average WPI inflation decelerated from 10.6 per cent in the first half of 1990s to 4.7 per cent during 2001-02 to 2005-06.

The inflation rate for Primary Articles at 11.1 per cent in the week ending February 24, 2007, is also higher than 5.1 per cent recorded a year ago. The inflation rate for Manufactured Products stood at 6.2 per cent for the week ending February 24, 2007, substantially higher than 2.1 per cent recorded a year ago. There is, however, a significant deceleration in inflation in fuel group from 8.6 per cent last year to 1.3 per cent this year as on February 24, 2007. Thirty essential commodities, with a combined weight of 17.63 per cent in the WPI basket, registered an inflation rate of 3.7 per cent for the week ending February 24, 2007 compared to 5.7 per cent a year ago, and lower than 8.7 per cent recorded on June 17, 2006.

The point-to-point Consumer Price Index (CPI) inflation for industrial workers was placed higher at 6.7 per cent in January 2007 as against 4.8 per cent a year ago. It was 7.6 per cent in June 2006, the highest in 7 years. Inflationary trend of CPI was lower than the WPI till October 2005, and was higher than the WPI during November 2005 to January 2007. The new series of CPI-IW has been introduced on 2001 base from January 2006 and old series on base 1982 has been discontinued. The CPI-IW has a weightage of 46.19 per cent for the food group which is higher than 26.94 per cent weight in WPI based food group (primary and manufactured). As a result the impact of a rise (or fall) in prices of food articles is relatively more on consumer prices indices (CPI-IW, UNME, AL&RL) as compared to the WPI.

The Government is aware of the adverse implication of high inflation particularly for the poor and its possible destabilizing effects for the macro-economy. Therefore, the containment of inflation continues to be high on the Government's agenda. Anti-inflationary policies of the government include strict fiscal and monetary discipline; rationalization of excise and import duties of essential commodities, effective supply-demand management of sensitive items through tariff and trade policies; and strengthening the public distribution system.

Agriculture

For the country as a whole, the seasonal rainfall from 1st June to 30th September 2006 was 99 per cent of its Long Period Average (LPA). The regional distribution of total rainfall, however, was not uniform. Northeast India was the worst affected region with a rainfall deficiency of 17 per cent. The cumulative rainfall (June-September) was excess in 6 meteorological sub-divisions, normal in 20 and deficient in 10 sub-divisions.

The overall kharif foodgrains production during 2006-07 is estimated at the level of 107.2 million tonnes (2nd advance estimates) compared to last year's production of 109.9 million tonnes (final estimates). The rice production is expected to be 90.0 million tonnes. The total production of kharif Coarse Cereals is estimated to be 32.0 million tonnes.

Developments in Industry

During the period April to December 2006, the industrial sector grew at 10.8 per cent. Manufacturing sector, which accounts for a weight of 79 per cent in the Index of Industrial Production largely contributed to this growth. During the period April to December 2006, this sector grew at an average rate of 11.8 per cent. The comparable growth of the manufacturing sector during the same period last year was 9.0 per cent. The mining and electricity sectors also registered a growth rate of 3.9 per cent and 7.5 per cent respectively against the previous period's figure of 0.5 per cent and 4.8 per cent.

Capital goods sector has maintained an impressive growth of 17.5 per cent during the current fiscal so far (April to December) as against 15.7 per cent in the comparable period of the last fiscal. The growth of basic goods has improved from 6.1 per cent during April-December 2005 to 9.7 per cent during April-December 2006. In case of intermediate goods, there was acceleration in the rate of growth from 2.3 per cent to 11.1 per cent. The consumer goods sector showed slight deceleration in the growth rate from 12.5 per cent to 9.5 per cent during the corresponding period of the previous year. A similar slow down was observed in consumer non-durables in the current year from 12.0 per cent in the previous year (April - December) to 8.9 per cent in the current year.

At a further disaggregated level within the manufacturing sector, "Basic Metal and Alloy Industries" registered a growth rate of 21.4 per cent during April-December 2006. Transport Equipment and Parts grew at 15.6 per cent during this period. Other industry groups which recorded a growth exceeding 10 per cent included Beverages, Tobacco and Related Products, Cotton Textiles, Textile products, Rubber, Plastic, Petroleum & Coal Products, Non Metallic Mineral Products, Machinery and Equipment other than Transport equipment & Other Manufacturing Industries.

Infrastructure

The importance of infrastructure for sustained economic development is well recognized. High transactions costs arising from inadequate and inefficient infrastructure can prevent the economy from realizing its full growth potential regardless of the progress on other fronts. The overall index of six core industries having a direct baring on infrastructure and accounting for 27 per cent weight in the index of industrial production (IIP), in April-December, 2006 registered a growth of 8.3 per cent, which was higher than the 5.5 per cent registered during April-December, 2005. Finished steel, coal and cement recorded a lower growth 9.7, 4.5 and 9.9 per cent during April-December, 2006 as compared to 10.7, 6.2 and 10.9 per cent respectively during the corresponding period of the previous year. Electricity generation registered improved growth of 7.5 per cent as compared to 4.8 per cent during the corresponding period of the previous year. The Crude petroleum recovered from the decline witnessed during April-December, 2005.

Monetary Trends and Developments

During the current financial year 2006-07 (up to December 22, 2006), broad money (M3) grew at a higher rate of 10.6 per cent as compared with 8.4 per cent in the corresponding period of the previous year. M3 growth on a year-on-year basis, as on December 22, 2006, was 19.4 per cent, as compared with 17.8 per cent on the corresponding date of the previous year. The growth of M3 up to December 22, 2006 is also higher than the projected growth of 15.0 per cent for the full year indicated in the Annual Policy Statement of the Reserve Bank of India (RBI) for 2006-07. Also, the major components of M3 (currency with the public, demand and time deposits with banks) registered a higher growth in the current year as compared to the previous year. Among the sources of M3 in the current year, the growth was largely driven by increase in bank credit to the commercial sector.

During the current financial year (up to December 22, 2006), reserve money (Mo) also grew at a higher rate of 8.2 per cent as compared with 6.9 per cent in the corresponding period of the previous year. The year-on-year growth of reserve money as on December 22, 2006 was also higher at 18.6 per cent compared with 14.9 per cent on the corresponding date of the last year. In recent years, there has been a significant shift in the relative importance of sources of reserve money. Net RBI credit to the Government, which was driving the reserve money growth till 2002-03 ceased to be an important factor. With large capital in flows into the country, net foreign exchange assets (NFA) of RBI have emerged as a major determinant of reserve money growth. In the current year, NFA grew by 16.4 per cent compared to 5.5 per cent during the corresponding period of the previous year.

RBI had to contend with the twin challenges of maintaining the growth momentum of the economy while containing the inflationary pressures stemming from volatile movements in petroleum and primary commodity prices. RBI's carefully calibrated policy response, particularly in the face of a higher than projected growth of M3 during the current financial year, entailed a gradual increase in the short-term policy rates, namely the reverse-repo rate (the rate at a which banks can park their surplus funds for 1 to 3 days with the RBI) and the repo rate (the rate at which banks can borrow funds for 1 to 3 days from the RBI) under the Liquidity Adjustment Facility (LAF). The reverse-repo (repo) rate was raised from 5.50 (6.50) per cent to 5.75 (6.75) per cent on June 9, 2006, and to 6.00 (7.00) per cent on July 25, 2006. On October 31, 2006 to send a signal to banks for careful liquidity management, the repo rate was raised further to 7.25 per cent. Furthermore, to stem inflationary expectations, the Cash reserve ratio (CRR) has been raised by 25 basis points effective from December 23, 2006 and by another 25 basis points from January 6, 2007.

Bank credit

The pick up in bank credit, observed in the 2004-05, continued through the current year. Gross bank credit by scheduled commercial banks (SCBs), comprising food and non-food credit, increased by 15.0 per cent in the current year (up to December 22, 2006) compared with 16.2 per cent in the corresponding period last year. Non-food credit increased by 15.4 per cent compared to 16.7 per cent during the corresponding period of last year. However, food credit increased by 2.3 per cent in the current year (up to December 22, 2006), which was marginally lower than the growth of 2.5 per cent witnessed last year. In the current financial year (up to December 22, 2006), investment by Scheduled Commercial Banks (SCBs) in Government and other approved securities grew by 5.0 per cent as compared with decline of 1.3 per cent in the corresponding previous period.

External Sector

India's exports registered an impressive growth of 23.4 per cent in 2005-06 and exports crossed the US$ 100 billion mark on customs basis. The growth in domestic output, especially the manufacturing sector at 9.1 per cent in 2005-06 and sustained demand from the major trading partners, specially the Asian economies helped achieve this. Exports reached a level of US$ 99.1 billion in April-January, 2006-07 with a growth of 32.2 per cent on provisional to provisional (POP) basis (growth rate comparisons for the current year is on POP basis, unless stated otherwise). The export growth was broad based, with most of the major sectors performing well. While the US continues to be the single largest export destination of India, its share increased marginally in 2005-06 but declined substantially by around 2 per cent in 2006-07 (April-October). United Kingdom emerged as the fifth largest export destination, with a 39.80 per cent growth in 2005-06 replacing Hong Kong.

Growth of merchandise imports continued to be high at 33.8 per cent with total imports touching US$ 149.2 billion in 2005-06. The high growth in imports in 2005-06 was primarily due to the high price of crude and petroleum products. During the first ten months of the current year import growth was at 37.6 per cent with crude oil imports growth at 36.4 per cent. Non-oil imports during April-January, 2006-07 increased by 23.3 per cent due to the relatively lower import of gold & silver. Trade deficit (on customs basis), which has been showing a widening trend in recent years, reached US$ 46.1 billion in 2005-06. In the first ten months of 2006-07 the merchandise trade deficit has touched a level of US$ 50.6 billion.

The Balance of Payments (BOP) position continued to be strong in 2005-06. The reversal of the trend of current account surpluses in 2004-05 with a modest deficit of US$ 2.5 billion deepened to US$ 9.2 billion in 2005-06. The main reason for this was the widening trade deficit on account of the impact of the rise in international prices of crude on the country's import bill. On a BOP basis, exports registered a growth of 23 per cent in US dollar terms in 2005-06. With total imports, on BOP basis, recording a growth of 32 per cent during 2005-06, the trade deficit on BOP basis increased to US$ 51.8 billion (6.4 per cent of GDP) in 2005-06 from US$ 33.7 billion (4.9 per cent of GDP) in 2004-05. The net inflow of invisibles (comprising mainly of non-factor services, private transfers, investment income and grants) at US$ 42.7 billion could compensate about 82 per cent of the deficit on the trade account in 2005-06, leaving a financing gap of US$ 9.2 billion on the current account (1.1 per cent of GDP).

Total net capital inflows in 2005-06 at US$ 24.2 billion were about US$ 4.4 billion lower than in 2004-05. The deceleration was primarily on account of lower levels of net external assistance, net commercial borrowings and other capital flows(net). In spite of a deficit in the current account during 2005-06, the total foreign currency assets (FCA) went up by US$ 15.1 billion (on BOP basis) during the year. The country's FCA at the end of March 2006 amounted to US$ 145.1 billion, registering an increase of US$ 9.5 billion over the end March 2005 level of US$135.6 billion. The FCA have increased further by US$ 25.1 billion in the current financial year to a level of US$ 170.2 billion by end December 2006. At the end of December 2006, India's total foreign exchange reserves (including FCA, gold, special drawing rights (SDRs) and reserve tranche position (RTP) in the IMF) stood at US$ 177.3 billion.

During the first half of the current year 2006-07, growth of imports and exports have decelerated on BOP basis, as compared to the corresponding period of the last year. Total net capital inflows, during the first half of 2006-07, at US$ 20.3 billion are higher by about 33 per cent over such inflows in the corresponding period of 2005-06.

India has broadly been following a market-determined exchange rate policy, allowing the Indian rupee to move in response to the changes taking place in global foreign exchange markets. The Rupee appreciated by about 1.5 per cent against the US Dollar in 2005-06 recording an annual average value of Rs 44.27. The Rupee, in nominal terms, has exhibited a mixed trend of appreciation and depreciation in 2005-06 and first nine months of 2006-07 against the major global currencies i.e. UK Pound, Euro and Japanese Yen. At the end of nine months (April-December) of 2006-07, the Rupee depreciated by around 3 per cent against the US Dollar compared with the corresponding period of the previous year. The policy stance of the RBI continues to be focussed on moderating excessive volatility in the exchange rate and maintaining orderly conditions in the foreign exchange market.

India's external debt stock stood at US$126.4 billion as at end March 2006. This increased to US$132.2 billion in the first quarter of 2006-07 and to US$136.5 billion (Rs.638,181 crore) as at the end of September 2006. While long term debt was US$ 125.9 billion, short term debt at US$10.6 billion accounted for 7.8 per cent of total debt. US dollar continued to be the major constituent currency, accounting for 46.1 per cent of total external debt stock. Proportion of short-term debt to foreign currency assets was 6.7 per cent and the foreign currency assets provided a cover of 116 per cent to total debt as at end-September 2006. The key indicators of external debt continued to improve during the year. The external debt to GDP ratio dropped from 17.3 per cent at end-March 2005 to 15.8 per cent at end-March 2006. In terms of international comparison, India's external debt position continued to remain comfortable.

To comply with the Special Data Dissemination Standards of IMF, the member countries disseminate data on external debt on a quarterly basis. However, different formats were being used by the member countries to publish external debt data which rendered international comparisons difficult. Therefore, the World Bank and IMF developed jointly a centralized database system called 'Quarterly External Debt Statistics (QEDS)' prescribing certain standard formats of debt data reporting. India formally joined QEDS in November 2006 by supplying external debt data for the quarter ending June 2006 to the World Bank in the prescribed format and updates as per the prescribed calendar are being provided.

Social Sector Development

Expenditure of the Central Government on social services including rural development increased from Rs.18,240 crore on 1995-96 to Rs.87,607 crore in 2006-07 (BE). The total expenditure on social sectors of the general government (combined Centre and State Governments) as a percentage of GDP at current market prices also increased from 5.93 per cent in 2002-03 to 6.04 per cent in 2006-07 (BE).

II. DEPARTMENT OF EXPENDITURE

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

The agenda for the Department was guided by the framework provided by the (i) Thrust Areas set for Department of Expenditure by the Prime Minister, including 5-planks of institutional reforms, viz., Decentralisation, Simplification, Transparency, Accountability and e-governance. (ii) Initiatives on Expenditure Management announced by the Finance Minister in the Fiscal Policy Strategy Statement presented with the Budget under the Fiscal Responsibility and Budget Management Act. (iii) The recommendations of the 12th Finance Commission concerning fiscal reforms.

The business allocated to the Department of Expenditure is carried out through Establishment Division, Policy and Coordination Wing, Plan Finance-I and II Divisions, Finance Commission Division, Staff Inspection Unit, Cost Accounts Branch, Controller General of Accounts, and the Central Pension Accounting Office.

III. DEPARTMENT OF REVENUE

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

Tax policies are formulated in order to mobilize financial resources for the nation, achieve sustained growth of the economy, macro-economic stability and promote social welfare by providing fiscal incentives for investments in the social sector. Suitable changes were made in the Budget 2006-07 to achieve these objectives. The details of these changes are given in paragraphs 3.3 and 4.9.

During the financial year 2006-07, the drive against smuggling, tax evasion, etc., continued throughout the country in view of Government's firm resolve to take strict action against socio-economic offenders. The year also witnessed continued efforts at better coordination with the intelligence/ enforcement agencies of other countries.

The Central Economic Intelligence Bureau acts as a nodal agency for economic intelligence for interaction & coordination among the concerned regulatory agencies in the area of economic offences. The Bureau has also been charged with the responsibility of overall administration of COFEPOSA Act, 1974 (Conservation of Foreign Exchange and Prevention of Smuggling Activities Act) and monitoring of actions taken by the State Governments. It functions as the Secretariat for the Economic Intelligence Council set up to improve coordination among the enforcement agencies dealing with the economic offences and the Departments under Ministry of Finance. It monitors the functioning of 21 Regional Economic Intelligence Committees (REICs) constituted for coordinating work amongst various enforcement and investigative agencies dealing with economic offences at regional level. During the financial year 2006-2007, the Bureau gathered and passed on information on violation of economic laws to the enforcement agencies in order to bring the offenders to book. The COFEPOSA Act, 1974 was administered vigorously during the year to tackle the menace of smuggling and foreign exchange racketeering.

The Income Tax offices throughout the country continued their drive against tax evaders. During the financial year 2006-07 (upto Dec.'06), a total number of 2292 (prov.) Search Warrants were executed leading to the seizure of assets worth Rs.251.02 crore (prov.). During the same F.Y (upto Sep.'06), a total number of 1819 (prov.) Surveys were conducted which yielded a disclosure of additional income of Rs.1021.50 crore (prov.). As regards assessees, a total number of 9.16 lakh new assessees were added during the same F.Y (upto Dec.'06).

The Customs and Central Excise offices also continued their drive vigorously against duty evasion. During the financial year 2006-07 (upto Dec.'06), a total number of 4968 cases of evasion of Central Excise involving duty effect of Rs.3155.74 crore were detected. Regarding evasion cases of Customs duty, cases involving duty effect of 692.11 crore were detected in the same FY (upto Oct.'06). The drive against smuggling continued unabated. All Commissionerates along the coast, land borders and, in charge of international airports, remained fully alert to prevent smuggling of contraband, both into and out of the country. As a result, during the same FY (upto Oct.'06), contraband worth the value of Rs.331.06 crore were seized.

IV. DEPARTMENT OF DISINVESTMENT

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

The National Common Minimum Programme adopted by the Government outlines the policy of the Government with respect to the Public Sector, including disinvestment of Government's equity in Central Public Sector Enterprises (CPSEs).

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

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Chapter-I

Department of Economic Affairs

1. Economic Division

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

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

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

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

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

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

- External Sector
- Public Finance and Fiscal Policy
- Industry and Infrastructure
- Prices and Agriculture
- Coordination Unit
- Social Sectors
- Money and Capital Markets

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

1.8 External Debt Management Unit (EDMU) set up in the Ministry of Finance, Department of Economic Affairs is the apex unit for external debt monitoring and management exercise. The Unit, besides releasing external debt statistics for two quarters ending September and December each year in compliance with the requirement under IMF's Special Data Dissemination Standards, supplies external debt data on a quarterly basis for World Bank's centralised database system called 'Quarterly External Debt Statistics'. EDMU brings out 'India's External Debt: A Status Report' on a regular basis covering detailed analysis of annual external debt statistics together with international comparison.

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

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

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

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

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

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

Banking and Insurance Division

2. Banking

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

2.2.1 Amendment to SBI Act, 1955

In order to attract the large number of small individual investors and to access the capital market for raising funds and as well as for smooth functioning and better control, the State Bank of India (Amendment) Bill, 2006 was introduced in Lok Sabha on 18th December 2006.

2.2.2 Amendment to State Bank Of India (Subsidiary Banks) Act, 1959

In order to remove the long standing investors grievances and also with a view to comply with certain guidelines issued by Securities and Exchange Board of India (SEBI) besides enabling subsidiaries of SBI attract a large number of small individual investors, State Bank of India (Subsidiary Banks Laws) Amendment Bill, 2006 was introduced in the Lok Sabha on 26.08.2006.

2.2.3 Payment and Settlement Systems Bill, 2006

In order to provide for a legal basis to recognize clearing houses, legal sanction to netting of payments with receipts, finality of settlement, recognition of service providers and participants, electronic mode of payments and explicit powers of supervision over securities clearing and settlement, "Payment and Settlements Systems Bill, 2006" was introduced in Lok Sabha on 25th July, 2006.

2.3.1 Banking Codes and Standard Boards of India

The Reserve Bank of India (RBI) together with 11 other banks in India set up the Banking Codes and Standards Board of India (BCSBI) in February 2006 to monitor and ensure that banking codes and standards voluntarily adopted by banks are adhered to, in letter and spirit, while providing services to individual customers.

The Code of Bank's Commitment to Customers (Code) released by BCSBI on July 1,2006 in consultation with the banking industry sets out minimum standards of banking practices for banks to follow and emphasizes transparency in banks' dealings with its customers. To achieve the avowed transparency, it provides for documentation of banks' fees and service charges in the form of a Tariff Schedule and requires banks to set out a cheque collection policy, compensation policy and a security repossession policy. The Code lays great emphasis on providing full information to the customer before a product or service is sold to him. For post sale conduct, the code insists on banks giving one month's notice to customer before making any change in their tariff schedule or any change in terms and conditions governing the product, which may adversely affect the customer. The detailed Code is available on the BCSBI website (http://www.bcsbi.org.in).

The BCSBI has approved the membership of 60 schedule commercial banks, which cover more than 98 per cent of the branch network of commercial banks in India. Any scheduled commercial bank deciding to become member of BCSBI has to commit itself to adopt the Code.

2.3.2 Banking Ombudsman Scheme, 2006

Banking Ombudsman Scheme is in operation since 1995. The Scheme works under the control and supervision of Reserve Bank of India (RBI). Banking Ombudsman is an independent body with legal powers to settle disputes quickly and inexpensively. RBI has appointed 15 Banking Ombudsman all over the country. The system is designated to ensure, in normal course, satisfactory resolution of complaints as early as possible. Any customer whose grievance has not been resolved by bank(s) to his satisfaction can approach Banking Ombudsman. The Scheme has been revised by RBI, in consultation with Government of India in 2006. The coverage of the Scheme has been widened to include new grounds of complaints, such as: credit card complaints, pension complaints, complaints relating to failure in providing the promised facilities, including through the direct selling agents and complaints relating to non-adherence to fair practices code as adopted by individuals banks.

The Chief Executives of the banks have been requested to ensure that the awards of the Banking Ombudsman are honoured without raising unnecessary objections. During the period from 01.01.2006 to 31.12.2006, under the revised B.O. Scheme 2006, Banking Ombudsman Offices received 41,901 complaints mainly related to delay in collection/remittance, unauthorized debits in deposit accounts, ATM, Credit Card issues etc. Despite huge increase in number of complaints as compared to year 2005, the Banking Ombudsmen have successfully disposed off 33,956 complaints during the said period.

2.3.3 Non-Banking Financial Companies

RBI vide its circular dated December 12, 2006 has brought in a revised framework to address the issues pertaining to the relationship between the banks and NBFCs and systemically important NBFCs. The guidelines aim at bringing about level playing fields in the financial sector to facilitate healthy development of NBFCs sector.

(Para I) Modifications to the Regulatory Framework for NBFCs

A. Regulatory Framework for Systemically Important NBFCs – Non Deposit taking.

(i) All Non Deposit taking with an asset size of Rs.100 crore and more as per the last audited balance sheet will be considered as a systemically important NBFCs.

(ii) Such NBFCs shall maintain a minimum Capital to Risk-weighted Assets Ratio (CRAR) of 10 per cent. The present minimum CRAR stipulation at 12 per cent or 15 per cent, as the case may be, for NBFCs – D shall continue to be applicable.

(iii) Single / Group Exposure norms for these NBFCs have been specified. Additional Single Exposure norms have been allowed for Asset Finance Companies (AFC).

(iv) NBFCs set up under the automatic route have been permitted to undertake only those 19 activities which are permitted under the automatic route. Diversification into any other activity would require the prior approval of FIPB.

(Para II) Modifications made in the regulatory framework for banks vis-à-vis NBFCs.

(i) The exposure (both lending and investment, including off balance sheet exposures) of a bank to a single NBFC / NBFC-AFC would not exceed 10 per cent 15 per cent respectively, of the bank's capital funds as per its last audited balance sheet. Banks may, however, assume exposures on a single NBFC/NBFC-AFC up to 15 per cent and 20 per cent respectively, of their capital funds provided the exposure is on account of funds on-lent by the NBFC /NBFC-AFC to infrastructure sectors.

(ii) NBFCs promoted by the parent / group of a foreign bank having presence in India, which is a subsidiary of the foreign bank's parent / group or where the parent / group is having management control shall be treated as part of that foreign bank's operations in India and brought under the ambit of consolidated supervision.

(iii) Bank sponsored NBFCs (viz. NBFCs which are subsidiaries of banks or where banks have a management control) have been allowed to offer discretionary Portfolio Management to their clients, on a case to case basis.

(iv) Banks in India, including foreign banks operating in India have been asked not to hold more than 10 per cent of the paid up equity capital of an deposit taking

NBFC. This restriction would, however, not apply to investment in housing finance companies.

2.4.1. Measures to strengthen Capital of Banks

I. Public Sector banks accessing Capital market.

Public Sector Banks would need to further shore up their capital funds as they are required to maintain capital for market risks, besides credit risks and with the transition to the new capital adequacy framework (Basel II) scheduled for March 2008/2009, for operational risks also. The requirements under the revised framework, is more sensitive to the level of risk. Thus banks would need to raise additional capital on account of market risk, Basel II requirements, as well as to support the expansion of their balance sheets.

With a view to provide banks in India additional options for raising capital funds, to meet both the increasing business requirements as well as the Basel II requirements within the existing legal framework, it was decided to allow banks to augment their capital funds by issue of following Instruments:

(a) Innovative Perpetual Debt Instruments (innovative instruments) eligible for inclusion as Tier 1 capital;

(b) Debt capital instruments eligible for inclusion as Upper Tier 2 capital (Upper Tier 2 instruments);

(c) Perpetual non-cumulative Preference shares eligible for inclusion as Tier 1 capital - subject to laws in force from time to time; and

(d) Redeemable cumulative Preference shares eligible for inclusion as Tier 2 capital - subject to laws in force from time to time.

While equity is the purest form of capital, the Basel prescriptions recognise other instruments as eligible for inclusion as capital for capital adequacy purposes. The instruments that are generally recognised as capital have various features of equity built into them which take them closer to equity in substance and gives the regulator the comfort that these will be available to absorb losses, when required. At the same time, the features of debt present in these instruments – like maturity, call option, coupon etc. help the issuer to raise capital funds through these instruments at a cost lower than the cost of equity. The advantage with these instruments is that these are non-dilutive and are cost effective.

While the guidelines to banks for raising capital funds through the issue of the instruments at (a) and (b) above were issued on January 25, 2006, the detailed guidelines in regard to (c) and (d) above will be issued separately in due course.

II. Major Guidelines/Instructions issued

Managerial Autonomy to Private Sector Banks

Guidelines on Ownership and Governance in Private Sector Banks

Consequent to the issue of guidelines on ownership and governance in private sector banks in February 2005 discussions were held with the banks to review initiatives taken by them to comply with the guidelines. Banks are exploring options such as public offer, private placement, issue of rights/bonus shares to fulfill the networth criterion and dilution of ownership. Reserve Bank is taking up the matter with the banks who have not complied with the norms. Banks also have the option of merger if the necessary synergies are available. The Lord Krishna Bank Ltd. and the Sangli Bank Ltd. have proposed to amalgamate themselves with the Centurion Bank of Punjab Ltd. and ICICI Bank Ltd., respectively, in terms of Section 44A of the B. R. Act, 1949.

2.4.2 Amalgamation of Ganesh Bank of Kurundwad Ltd. with The Federal Bank Ltd. under Section 45 of the B. R. Act, 1949.

(i). In view of the deteriorating financial condition of the Ganesh Bank of Kurundwad Ltd., Central Government, on the recommendations of RBI, placed the bank under an Order of Moratorium for a period of 3 months with effect from January 7, 2006, under section 45 of the Banking Regulation Act, 1949. During the period of moratorium, RBI prepared a draft Scheme of Amalgamation of the bank with the Federal Bank Ltd. and placed it in public domain inviting suggestions / objections of the members / creditors / depositors of the Ganesh Bank on the draft Scheme of Amalgamation. The objections / suggestions received from the members / creditors / depositors of the bank and others were considered by Reserve Bank. RBI having complied with all statutory requirements under Section 45 of the Banking Regulation Act, 1949, Government of India sanctioned the Scheme of Amalgamation of the Ganesh Bank of Kurundwad Ltd. with the Federal Bank Ltd. on January 24, 2006. The Scheme of Amalgamation came into force on January 25, 2006.

(ii). However, the amalgamation was challenged by Ganesh Bank of Kurundwad Ltd. and others before the High Court of Bombay. The High Court, vide interim order dated January 27, 2006, stayed the operation and implementation of the order dated January 24, 2006 of Government of India and the status quo which existed before January 24, 2006 was restored.

(iii). The Order of the Bombay High Court was challenged by the RBI and Federal Bank Ltd. in a Special Leave Petition before the Supreme Court. The Supreme Court, vide order dated January 30, 2006, declined to interfere in the order of the Bombay High Court, but directed the Bombay High Court to hear and decide the matter on a day-to-day basis.

(iv). The High Court, vide order dated April 5, 2006, dismissed the writ petitions challenging the amalgamation, but granted 4 weeks' time to the petitioners to file an appeal against the order. The High Court extended the period of moratorium by 4 weeks and ordered that the Scheme of Amalgamation would not come into force during this period.

(v). The Ganesh Bank filed a Special Leave Petition before the Supreme Court against the High Court order dismissing its writ petition. The Supreme Court, vide interim order dated May 1, 2006, extended the interim order granted by the High Court. The hearing in the matter before the Supreme Court was completed on June 6, 2006. The Supreme Court, vide order dated August 28, 2006, dismissed the Special Leave Petition stating that the judgment of the High Court did not suffer from any infirmity to warrant interference.

(vi) Government issued necessary notification on September 1, 2006 and the Ganesh Bank of Kurundwad Ltd. was amalgamated with the Federal Bank Ltd. with effect from September 2, 2006.

2.4.3 Amalgamation of United Western Bank Ltd.

In view of the deteriorating financial condition of the United Western Bank Ltd. (UWB), the Central Government, on an application made by the Reserve Bank of India, issued an Order of Moratorium under sub Section (2) of Section 45 of the Banking Regulation Act, 1949, for a period of three months effective from 14.00 hrs. on Saturday, September 2, 2006. During the period of Moratorium RBI received Expression of Interest from 17 entities.

On September 12, 2006, RBI placed in public domain a draft scheme of amalgamation of the UWB with the Industrial Development Bank of India Limited. The draft scheme was sent to both the banks. The Reserve Bank invited suggestions and objections on the draft scheme from the members of public, including the banks' shareholders, depositors and creditors. Objections and suggestions were received by RBI till the close of business of September 27, 2006. After considering the objections and suggestions, the Scheme was forwarded to Central Government for sanction. The Government of India sanctioned the Scheme for the amalgamation of UWB with Industrial Development Bank of India Ltd. on September 30, 2006. The amalgamation came into force on October 3, 2006.

2.5.1 Regional Rural Banks

Regional Rural Banks (RRBs) have been established since 1975 under the provisions of the Ordinance promulgated on 26th September, 1975 and RRBs Act, 1976 with a view to developing the Rural economy as well as to create an alternative channel to 'cooperative credit structure' so as to ensure sufficient Institutional Credit for Rural and Agriculture Sector. RRBs are jointly owned by Government of India, the concerned State Government and Sponsor Banks (27 Scheduled Commercial Banks and one State Cooperative Bank). The issued capital of an RRB is shared by them in the proportion of 50 per cent, 15 per cent and 35 per cent, respectively. The area of operation of majority of RRBs is limited to a notified area comprising a few districts in the States.

The year 2005-06 has been a remarkable year for the RRBs. The introduction of Financial Sector Reforms and sweeping changes in their functioning have resulted in significant improvement in the functioning of RRBs. With a view to provide better customer service, Government of India initiated a process for the structural consolidation of RRBs sponsored by the same Bank within a State in the year 2005. The amalgamated RRBs will reap benefits of staff rationalization, increased quantum of advances and investments on the increased capital base and the benefit of larger resources and economies of scale. As on 31st March, 2006, 196 RRBs have been reduced to 133 by way of amalgamation. RRBs have 14,494 branches in 525 districts and 68,629 employees.

2.5.2 Deposit and Advances

The deposits of RRBs increased by Rs.9,186 crore from Rs.62,143 crore as on 31 March 2005 to Rs.71,329 crore as on 31 March 2006. The loans issued by RRBs as on 31 March 2006, aggregate to Rs.25,427 crore as against Rs.21,082 crore in the previous year, thereby registering a growth rate of 20.60 per cent.

2.5.3 Financial Results

112 RRBs out of 133 RRBs have earned profit to the extent of Rs.756 crore as on 31.3.2006. The total profit of the RRBs, has declined from Rs.904 crore to Rs.756 crore during the period under review. The decline in profit is mainly on account of payment of arrears and revised salary to the employees due to implementation of VIII Bipartite Settlement in RRBs.

Due to good management of Non-Performing Assets (NPAs) in the RRBs, there has been progressive decline in the NPA percentage. The Non-performing Assets of these banks have declined from 8.53 per cent as on 31.3.2005 to 7.28 per cent as on 31.3.2006. The aggregated amount of gross NPA stood at Rs.2,890 crore as on 31 March 2006 as against Rs.2,804.35 crore as on 31 March 2005.

2.5.4 Credit-Deposit Ratio (CD Ratio)

During the year under review CD Ratio has improved from 52.89 per cent in 2004-05 to 55.68 per cent.

2.5.5 Refinance Support from NABARD

During the year, sanction of credit limit by National Bank for Agriculture and Rural Development (NABARD) continued to be linked to NPAs and CD ratio of banks. Credit limits were however, available to RRBs operating in the North Eastern Region (NER), even if they did not satisfy NPA norms. RRBs were advised to finance atleast two per cent of their crop loans to tenant farmers and oral lessees. During 2005-06 (July-March) 119 RRBs were sanctioned credit limits of Rs.2,499.45 crore under Short Term (Seasonal Agricultural Operations {ST (SAO)} as against Rs.2,001.95 crore sanctioned to 118 RRBs during the same period of the previous year. These credit limits included Rs.286.39 crore for Oilseeds Production Programme(OPP) and Rs.66.92 crore for Development of Tribal Population(DTP). Among the states, Andhra Pradesh, with a sanction of Rs.620.45 crore, accounted for the largest share of credit limits, followed by Karnataka (Rs.370 crore) and Kerala (Rs.337.51 crore).

The aggregate sanction of credit limits for Short Term (Other Seasonal Agricultural Operations {ST(OSAO} to RRBs during 2005-06 (July-March) was at Rs.255.95 crore, as against Rs.216.58 crore during the corresponding period of the previous year.

2.6.1 Small & Medium Enterprises (SME) Credit

As on 31.03.2006, there are 1.23 crore SSI units in the Country with an outstanding of Rs.82,492 crore. As regards SME, Rs.1,61,038.64 crore is the outstanding of SME units as on 30.09.2006.

2.6.2 Growth of SME Credit

As against the proposed 20 per cent year on year growth in credit to SMEs (as envisaged in the policy package on stepping up of credit to SME Sector announced in August, 2005), the public sector banks have shown a 28 per cent growth for the year 2005-06.

2.6.3 Credit Guarantee Funds Scheme for Small Industries (CGTSI)

- Set up in 2000-2001 with an initial corpus of Rs.125 crore.
- The present corpus of Credit Guarantee fund is Rs.1,336.53 crore with contribution from Govt. of India and SIDBI.
- Proposes to raise the same to Rs.2,500 crore in the next five years.
- Loans upto Rs.25 lakh by banks are covered for guarantee under the scheme.
- Guarantees extended for 51,147 proposals covering credit assistance of Rs.1,321.13 crore till September 30, 2006.
- Units covered under CGTSI employ 2.64 lakh persons and have aggregate turnover of about Rs.13,000 crore.
- As on 30th November, 2006, 59 Banks have joined the Scheme.
- Arrangements made with Life Insurance Corporation (LIC) for providing insurance cover to borrowers, identified as chief promoter.
- The one time guarantee fee has been reduced from 2.5 per cent to 1.5 per cent for all loans by the CGTSI.

2.6.4 Credit Appraisal and Rating Tool (CART)/ Risk Assessment Model (RAM)

SIDBI has developed a Credit Appraisal and Rating Tool (CART) as well as a Risk Assessment Model (RAM) for use by Public Sector Banks (PSBs). The banks may consider to take advantage of these models as appropriate and reduce their transaction costs.

2.6.5 SME Rating Agency (SMERA)

- A credit agency for SMEs has been set up and made operational from September, 2005. SMERA's primary objective is to provide ratings that are comprehensive, transparent and reliable and which would enable the rated units to borrow funds at competitive rates of interest.
- As on 30th November, 2006, SMERA has completed 325 ratings for SMEs and is having another 850 applications at various stages of processing.
- Risk profiling studies in respect of 4 SME clusters have been completed.
- SMERA has signed MoU with 16 banks for offering interest concession to the rated units.

2.6.6 Cluster Based Approach

In view of benefits accruing on account of cluster based approach for financing SME sector due to reduction in transaction costs, the banks have adopted the same for SME financing. SIDBI has covered 149 clusters all over the country.

2.6.7 Venture Capital Fund

In order to provide risk capital to SMEs sector, a SIDBI Venture Capital Limited (SVCL) with corpus of Rs.500 crore has been set up which is presently managing national SME Growth Fund for biotech, food processing, Pharma, light engineering and knowledge based industries.

- Total commitments – SME Growth Fund Rs.125 crore.
- SVCL has successfully implemented the National IT fund of Rs.100 crore benefiting 30 SSI units.
- Participated in State level/All India level venture funds with net commitments of Rs.480.13 crore.

2.6.8 One Time Settlement (OTS) Scheme

To provide relief/concessions to SME borrowers, guidelines on One Time Settlement (OTS) Scheme (for public sector banks) and Debt restructuring mechanism for SME sector (for all commercial banks) covering outstanding amount up to Rs.10 crore in the books of banks have been issued.

2.6.9 Micro, Small and Medium Enterprises Development (MSMED) Act, 2006

To facilitate the promotion, development and enhancing the competitiveness of Micro, Small and Medium Enterprises MSMED Act, 2006 has been enacted by the Ministry of Small Scale Industries. The definition & revised limits of Tiny/Micro Small & Medium may be seen in Table 1.1.

2.6.10 Debts Recovery Tribunals

Under the provisions of the Recovery of Debts due to Banks and Financial Institutions Act, 1993 which provides for establishment of Debts Recovery Tribunals (DRTs) and Debt Recovery Appellate Tribunals (DRATs) for expeditious adjudication and recovery of debts due to Banks and Financial Institutions and matters connected therewith or incidental thereto, the Central Government had established 29 Debts Recovery Tribunals (DRTs) and 5 Appellate Tribunals (DRATs). During the year three more DRTs have been established at Chandigarh, Madurai and Chennai.

The details of cases filed, disposed of during the last three years are in Table 1.2.

Table 1.1

Sector	Previous Limit	Revised Limit	
		Manufacturing	Services
Tiny/Micro	Rs.5 lakh	Rs.25 lakh	Rs.10 lakh
SSI	Rs.1 crore	Rs.5 crore	Rs.2 crore
Medium Enterprises	_	Rs.10 crore	Rs.5 crore

Table 1.2

Financial Year	No. of cases filed	Amount involved (Rs.in crore)	No. of cases disposed of
2004-05	7,627	19,302	8,988
2005-06	6,566	18,985	8,022
2006-07 (up to 31/12/2006)	4,084	21,229	4,548

2.7. Industrial Development Bank of India Ltd.

Industrial Development Bank of India, a statutory corporation established under the Industrial Development Bank of India Act, 1964, was converted into a commercial banking company, Industrial Development Bank of India Ltd. (IDBI), with effect from October 1, 2004, following the passage of the Industrial Development Bank (Transfer of undertaking and Repeal) Act 2003. IDBI Ltd. is now accordingly engaged in commercial banking business in addition to the mandated development banking activities. According to the Articles of Association of IDBI, Government of India continues to be the majority shareholder of the Company. Government stake in IDBI stands at 53 per cent.

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

2.7.2 Performance during 2006-07 (April-September)

In the half-year ended September 30, 2006, IDBI reported a net profit of Rs.290 crore as against Rs.240 crore in the corresponding period last year, reflecting an increase of 21 per cent. Operating profit during this period increased by over 15 per cent to Rs.325 crore as against Rs.283 crore in the first half of FY 2005-06. Net Interest Income (NII) for the half-year under reference, at Rs.233 crore, improved by 418 per cent over the corresponding half-year of the previous year. As of September 30, 2006, IDBI's total business (deposits and advances) stood at Rs 85,262 crore as against Rs 64,571 crore as of September 30, 2005, registering a growth of 32 per cent. Deposits increased by a robust 71 per cent to Rs.30,953 crore (Rs.18,158 crore as of September-end 2005). Low-cost current account and savings account (CASA) deposits now account for 25 per cent of total deposits. Advances increased by over 17 per cent to Rs.54,309 crore as compared to Rs.46,413 crore as at end-September 2005. IDBI continued to maintain a sound capital base as indicated by its capital adequacy ratio (CAR). As against the stipulated RBI norm of 9 per cent, the Bank's CAR stood at 14.66 per cent (Tier-I: 11.73 per cent) as of September-end 2006. The Bank's CAR at end-June 2006 was 14 per cent (Tier-I: 11.44 per cent). This provides significant headroom for further growing the business.

2.7.3 Amalgamation of Erstwhile United Western Bank

The Government, by a notification dated September 30, 2006, conveyed its approval for the amalgamation of erstwhile United Western Bank (UWB) with IDBI, with effect from October 3, 2006. From the effective date itself, it has been 'business as usual' at all the branches of the erstwhile UWB. It would operate, for the present, as a Special Business Unit (SBU) of the Bank. Following the amalgamation of erstwhile UWB into IDBI, the Bank's delivery channels now comprise 430 branches, 18 Extension Counters and 503 ATMs spread across 150 centers. Further, the acquisition of UWB would, *inter alia*, help grow IDBI's low-cost CASA deposit base and priority sector business volumes.

As on March 31, 2006, the Bank had 4,548 employees on its rolls, comprising 3,361 officers, 674 Clerical (Class III) and 513 Sub-staff (Class IV).

2.7.4 Industrial Investment Bank of India Limited, Kolkata

Industrial Investment Bank of India Limited (IIBI) was set-up as a company under the Companies Act, 1956, in March 1997 by converting the erstwhile Industrial Reconstruction Bank of India, constituted under an Act of Parliament. It owes its origin to Industrial Reconstruction Corporation of India (IRCI) Ltd. set-up in 1971 for rehabilitation of sick industrial undertakings. The institution provided financial assistance to industrial concerns. The paid up equity capital of IIBI Rs.225

crore is held by the Government of India. High cost of funds and mounting NPAs have made operations unviable. As a result, at present the business activities of IIBI are restricted. IIBI incurred a loss of Rs.151.99 crore during 2004-05 and Rs.20.51 crore during 2005-06 in spite of Government grant of Rs.143 crore during 2004-05 and Rs.119.47 crore during 2005-06 mainly to service certain liabilities. RBI has advised winding up of IIBI. In order to protect the interests of the staff and officers, a scheme was worked out for absorption of the staff and officers of IIBI by Public Sector Banks.

2.7.5 Industrial Finance Corporation of India Limited

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

Throughout the year 2005-06, IFCI operated in the restructuring mode concentrating its efforts on restructuring of its Balance Sheet primarily to reduce its asset-liability mismatches. During this period, IFCI has not sanctioned any assistance as part of its restructuring process. The assistance disbursed during the said period was limited to Rs.187 crore. The disbursements were mainly on account of restructuring of assisted concerns and devolvement of guarantees. Cumulatively, up to 31.3.2006, IFCI had made an aggregate sanction of Rs.46,062 crore to 4,871 projects and disbursed Rs.44,589 crore.

During the year 2005-06, IFCI suffered a net loss of Rs.74 crore as compared to the net loss of Rs.324 crore incurred during the previous year. The accumulated losses as on 31st March, 2006 stood at Rs.4,772 crore. However, during the financial year 2005-06 IFCI earned an operating profit of Rs.864 crore compared to operating loss of Rs.291 crore during the previous year. The improved performance was largely due to higher income from operations, lowering of cost of funds, reduction in expenditure, improved recoveries from non-performing assets and consequent lower provisions/ write off. As a significant development during the current financial year 2006-07, IFCI had made a net profit of Rs.116 crore for the first half-year ended 30th September, 2006 against a net loss of Rs.56 crore incurred during the corresponding period of the previous year. Cumulatively, up to 31.12.2006, IFCI has sanctioned and disbursed an aggregate sum of Rs.328 crore to 61 projects in the North-Eastern Region, including Sikkim.

2.7.6 Export-Import Bank of India (EXIM Bank)

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

During the year ended March 2006 (FY 2005-06), the Bank sanctioned loans of Rs.20,489 crore as against Rs.15,853 crore during 2004-05. Disbursements during the year amounted to Rs.15,039 crore, as compared to Rs.11,435 crore during the previous year. Loan assets increased to Rs.18,028 crore as on March 31, 2006 from Rs.13,410 crore as on March 31, 2005. Profit after tax amounted to Rs.271 crore during FY 2005-06 as against profit after tax of Rs.258 crore during FY 2004-05. A dividend of Rs.87 crore was paid to the Government for FY 2005-06 as compared to Rs.65 crore in the previous year. The Capital to Risk Assets Ratio (CRAR) stood at 18.42 per cent as on March 31, 2006 as compared to 21.58 per cent as on March 31, 2005.

During the year 2006-07, up to September 30, 2006, Exim Bank sanctioned loans of Rs.10,958 crore as against Rs.6,185 crore in the corresponding period of 2005-06. Disbursements over the same period amounted to Rs.8,982 crore as against Rs.5,305 crore in the previous year. Exim Bank has an office in Guwahati which identifies viable projects and export transactions especially in the agriculture sector for financing in the North Eastern region of the country.

2.7.7 India Infrastructure Finance Col. Ltd (IIFCL)

IIFCL was incorporated on January 5, 2006, as a wholly owned subsidiary of the GoI, with a mandate to provide long term debt to infrastructure projects. IIFCL has been set up as a Special Purpose Vehicle for rendering financial assistance to eligible infrastructure projects under a Scheme for Infrastructure Financing through IIFCL. The authorised and paid up share capital of the Company is Rs.1,000 crore and Rs.100 crore respectively.

The Company made a nominal profit for the year ended 31st March, 2006. The operation of the company gathered momentum during 2006-07 and details of sanctions are given in Table 1.3.

The Government would provide guarantees to IIFCL in order to enable it to raise funds. IIFCL would provide finance mainly to Public Private Partnership projects. IIFCL has not made any recruitment since inception. Minimum required staff has been taken on deputation from PSBs/FIs.

2.8.1 Agriculture Credit

The Government announced on 18th June, 2004 a package for doubling the flow of credit to agriculture and allied activities in a period of three years commencing from 2004-05 over the amount disbursed during the year 2003-04. The target and achievement of agricultural credit flow during 2004-05 and 2005-06 (April 2005 – March 2006) is given in Table 1.4.

The target for the credit flow to agriculture and allied sector has been fixed at Rs.1,75,000 crore during 2006-07. The total credit flow to agriculture upto December, 2006 by Public and Private Sector Commercial Banks, Cooperative Banks and RRBs is of the order of Rs.1,49,343 crore.

2.8.2 Interest Subvention

The Budget 2006-07 envisage interest relief of 2 per cent

Table 1.3: Sector Wise Sanctions by IIFCL for Financial Assistance to Infrastructure Projects as on 11-12-2006				
S. No.	Sector	No. of Proposals	Total Project Cost	Financial Assistance by IIFCL
1	Power	7	21,122.27	2,693.00
2	Road	29	16,914.39	2,822.00
3	Sea Port	3	1,542.30	216.00
4	Airport	1	5,825.80	1,150.00
5	Total	40	45,404.76	6,881.00

(Rs. crore)

Table 1.4: Target and Achievement and Agriculture Credit		
Year	Target	Achievement
2004-05	105,000	125,309
2005-06	141,000	1,80,486

point in the interest rate on the principal amount upto Rs.1,00,000/- on crop loans availed by the farmers for Kharif and Rabi 2005-06. For this purpose a sum of Rs.1,700 crore has been allocated. An amount equal to two percentage points of the borrower's interest liability on the principal amount upto Rs.1,00,000, has been credited to borrower's account before March 31, 2006.

Farmers obtain short-term credit from the cooperative credit structure and Regional Rural Banks (RRBs), with refinance from NABARD. Increasingly, scheduled commercial banks are also lending more to farmers. Government has decided to ensure that the farmer receives short-term credit at 7 per cent, with an upper limit of Rs.3,00,000 on the principal amount. For the implementation of the scheme, subvention to Public Sector Banks, Cooperative Banks and Regional Rural Banks and concessional refinance to Cooperative Banks and RRBs has been worked out amounting to Rs.1,955 crore for 2006-07.

2.8.3 Special Packages relating to Agriculture Credit for Debt Stressed Districts

Thirty one districts have been identified in the four states of Maharashtra (06), Andhra Pradesh(16), Karnataka(06) and Kerala(03) where large number of farmers have committed suicides. On 1st July, 2006, the Prime Minister himself paid a visit to the Vidharbh Region where he had direct interactions with the farmers of the Region.

Keeping in view the extreme conditions of the farmers, a special package has been announced. it has been decided to provide a comprehensive Debt Relief Package for farmers which would be premised on the package announced on 18.06.2004 but also specifically addressing the deep debt and distress of the farmers. The entire interest on overdue loans as on 01.07.2006 will be waived in affected districts such that all farmers will have no past interest burden as on that date. This should immediately make them eligible for fresh loan from the banking system. The estimated amount of interest on overdue loans in these 31 districts as on 01.07.2006 is Rs.2,720 crore. The burden of waiver of overdue interest will be shared equally by the State Government (50 per cent) and by the Central.

2.8.4 Self Help Groups (SHG) Bank Linkage Programme

The SHG Bank Linkage Programme has emerged as the major micro finance programme in the country. By March, 2006, 22.38 lakh SHGs have been provided credit aggregating Rs.11,397 crore by the Banking System. The focus under the SHG bank linkage programme is largely on those rural poor who have had no sustainable access to the formal banking system. The target-group, therefore, broadly comprises small and marginal farmers, agricultural and non-agricultural labourers, artisans and craftsman and other poor engaged in small businesses like vending, hawking etc. 24.81 lakh SHGs have been credit linked by December, 2006 with credit aggregating over Rs.14,000 crore

2.8.5 Reviving Rural Cooperative Credit Institutions

Concerned with the need to strengthen the rural cooperative credit institutions, the GOI constituted a task force under the chairmanship of Prof. A Vaidyanathan to recommend, inter alia, (i) an implementable action plan for reviving the rural cooperative credit institutions and (ii) to suggest an appropriate regulatory framework and the amendments necessary for the purpose, in the relevant laws.

The Task Force, in its report submitted to GOI on Short Term Cooperative Credit Institutions, recommended provision of liberal financial assistance to the ailing credit cooperatives, subject to certain legal and institutional reforms in the cooperative sector. The Task Force sought to bring down the interference of the State Govts in the credit cooperatives and recommended suitable amendments to the state cooperative societies acts and banking regulation act to make the credit cooperatives truly member driven.

In consultation with the states, a revival package for the Short Term Cooperative Credit Structure has been drawn. It envisages a total outlay of Rs.13,596 crore to be shared by Govt. of India, State Govts. and the CCS in the ratio of 68:28:4.

The assistance will be available for (a) wiping out accumulated losses, (b) covering invoked but unpaid guarantees given by State Governments, (c) increasing the capital to a minimum level of 7 per cent and (d) technical assistance (including cost of special audit, training, computerisation etc). So far, 8 states namely Gujarat, Maharashtra, Rajasthan, Madhya Pradesh, Andhra Pradesh, Sikkim, Orissa and Uttar Pradesh have signed the MoU and 4 more States have agreed to the package. In 2006-07 Rs.1500 crore has been provided in the Budget and for the remaining funding requirements financial tie ups have been made.

The report of the Task Force on Revival of Long Term Cooperative Credit Structure has been received and process of consultation has been initiated.

2.8.6 Micro Finance

Micro Finance Development Fund has been designated as Micro Finance Development and Equity Fund and its equity has been enhanced. Advisory Board for the Micro Finance Development and Equity Fund has been constituted. Discussions have been held with RBI, NABARD and other stakeholders regarding draft legislation, it is proposed to bring legislation on micro finance in the ensuing Budget Session.

Guidelines for accessing external commercial borrowings by NGOs in micro finance activities have been detailed by Reserve Bank of India NGOs engaged in micro finance activities have been permitted to access fund upto US five million dollar during a financial year. Under Automatic Route detailed guidelines on ECB for micro finance activities with necessary safeguards are issued.

2.9 Position of Implementation of Official Language Policy in the Banking and Insurance Division, Banks, Financial institutions and Insurance Companies

2.9.1 Banking Division ensures implementation of Official Languages Act, 1963 and Official Language Rules, 1976 as well as instructions received from Department of Official Language, Ministry of Home Affairs, from time to time, in the Division (including Insurance Division) and also in 27 Public Sector Banks, Seven all India Financial Institutions, Reserve Bank of India (RBI) and Insurance Companies. The Quarterly Hindi Progress Reports of Banking and Insurance Division, Public Sector Banks, Financial Institutions and Insurance Companies are regularly reviewed. The Committee of Parliament on Official Language has on 13/2/07 reviewed the progress made in the use of Hindi in the Banking Division.

2.9.2 An Official Language Implementation Committee is functioning in the Banking Division. This Committee periodically reviews the progress made in the use of Hindi in RBI, Public Sector Banks and Financial Institutions and issues necessary instructions to take necessary measures for effective implementation of Official Language Policy and Annual Programme issued by Department of Official Language. These Banks and Financial Institutions send their quarterly progress reports regarding use of Hindi in their Head Offices to the Banking Division. These progress reports are also reviewed in the meetings of Banking Division's Official Language Implementation Committee. During 2006-07 three such meetings were held on 24.04.2006, 06.07.2006 and 13.11.2006 respectively. RBI, Public Sector Banks, Financial Institutions and Insurance Companies also have their own Official Language Implementation Committees which also meet regularly to review the progress made in the use of Hindi. In addition, 25 Town Language Implementation Committees also monitor the progress of implementation of Official Language Policy in the Banks in different towns

2.9.3 Apart from that Departmental Official Language Implementation Committee of Banking and Insurance has constituted under the Chairmanship of Joint Secretary (Admn.) to review the work being done in Hindi. Till January 2007, four such meetings have been conducted.

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

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

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

2.9.7 Consequent to the follow up action taken on the recommedations made by the Committee of Parliament on

Official Language, training centres of Banks and Financial Institutions situated mostly in Region 'A' and 'B' barring a few technical courses, are conducting their training courses either exclusively through Hindi medium or in mixed language of Hindi and English. Handouts and training material are also available both in Hindi and in English.

2.9.8 Banks, Financial Institutions and Insurance Companies in addition to publishing small glossaries and booklets containing provisions of Official Languages Act, 1963 and rules made there under, annual programme, specimen of Hindi letters, standard notes and drafts, also organise Hindi workshops to impart training for working in Hindi for their staff. Banking Division also organised four Hindi workshops during the year.

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

2.9.10 Officers of Banking Division also inspected twelve head offices of Banks/Financial Institutions and insurance companies located at Delhi and outside Delhi during the year to have an assessment of the implementation of the various requirements of Official Language Policy.

2.9.11 Essay competition was organised for different categories of employees and officers during the 'Hindi fortnight 2006'.

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

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

Table 1.5: Scheduled Castes/Scheduled Tribes/Other Backward Classes.

Category	Total No. of Employees	No. of Employees belonging to		
		SC	ST	OBCs *
Officers	2,67,171	42,444	15,229	7,401
Clerks	3,25,573	52,615	16,234	10,786
Sub-Staff	1,45,670	38,783	9,895	99,75
Sweepers	40,773	22,673	2,421	3,616
Total	7,79,187	1,56,515	43,779	31,778

** Employed after 8.9.1993.*

Table 1.6: Ex-Servicemen

Category	Total No. of Ex-Servicemen employed
Officers	2,118
Clerks	8,572
Sub-Staff	31,757
Sweepers	120
Total	42,567

Table 1.7: Physically Handicapped

Category	Visually Handicapped	Hearing Impaired and Dumb	Orthopaedically Handicapped	Total
Officers	108	89	2,210	2,407
Clerks	530	737	4,009	5,276
Sub-Staff	138	210	1,510	1,858
Sweepers	11	42	246	299
Total	787	1,078	7,975	9,840

Development Bank of India as on 31.12.2006 are given in Tables 1.5, 1.6 and 1.7.

2.11.1 Cash Reserve Ratio (CRR)

Pursuing the medium-term objective of reducing the CRR, the Reserve Bank had reduced the CRR progressively from the peak of 15 per cent of net demand and time liabilities (NDTL) of banks in 1992 to 4.5 per cent by 2003. The CRR, however, was raised by one-half of one percentage point of NDTL in two stages of 0.25 percentage points each to 4.75 per cent effective September 18, 2004 and further to 5.0 per cent effective October 2, 2004 to combat inflationary expectations. Again on December 8, 2006, keeping in view the prevailing macroeconomic and monetary conditions, the Reserve Bank decided to increase CRR of all scheduled commercial banks, regional rural banks (RRBs), scheduled state co-operative banks and scheduled primary (urban) co-operative banking system by 50 basis points effective in two stages from December 23, 2006 to 5.25 per cent and January 6, 2006 to 5.50 per cent. In view of the paramount need to contain inflation expectations and in the light of current liquidity conditions, the Reserve Bank further increased the Cash Reserve Ratio (CRR) of scheduled commercial banks, regional rural banks, scheduled cooperative banks and scheduled primary (urban) cooperative banks by one-half of one percentage point of their net demand and time liabilities (NDTL) in two stages viz 5.75 per cent with effect from February 17, 2007 and 6.00 per cent with effect from March 3, 2007.

The recent amendment to Section 42 of the RBI Act, 1934, in June 2006, vests the Reserve Bank with the power to prescribe CRR for scheduled banks without any floor or ceiling rate. Further, the amendment removes the statutory minimum CRR and the Reserve Bank cannot pay interest on any portion of CRR balances of banks once the Act comes into force.

The Central Government by issue of an Extraordinary Gazette Notification dated January 9, 2007 appointed the 9th day of January, 2007 as the date on which all the provisions, except Section 3 of the Reserve Bank of India (Amendment) Act, 2006, shall come into force. As a result of issuance of this Notification, RBI took the following decisions, in consultation with Government and issued a press release on February 23, 2007:-

i) that for prescription by the Reserve Bank, the minimum CRR level of 3.0 per cent and the maximum CRR level of 20 per cent of total of banks' demand and time liabilities remain as per the extant provisions of Section 42(1) of the Reserve Bank of India Act, 1934.

ii) to exempt, under the powers, conferred on the Reserve Bank under sub-section 42(5) (c) of the Reserve Bank of India Act, 1934, such banks from payment of the penal interest who have breached the statutory minimum CRR level of 3.0 per cent during June 22, 2006 to March 2, 2007 on account of CRR exemptions reckoned from computation of demand and time liabilities for CRR; and

iii) to pay interest on eligible CRR balance during the interregnum in the following manner consistent with the monetary policy stance and measures at relevant periods of time:

   a) pay interest @3.5 per cent for the period June 24, 2006 to December 8, 2006;

   b) pay interest @2.0 per cent for the period December 9, 2006 to February 16 2007;

   c) pay interest @1.0 per cent from February 17, 2007 until further notice.

2.11.2 Statutory Liquidity Ratio (SLR)

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

2.11.3 Standing Liquidity Facility

The Reserve Bank provides standing liquidity facility (SLF) to banks (export credit refinance) and primary dealers (PDs) (collateralised liquidity support) which are extended at the repo rate. Consequent upon the changes in the repo rate from 6.50 to 6.75 per cent on June 9, 2006 the standing liquidity facility was made available to the scheduled banks and PDs at 6.75 per cent with effect from June 9, 2006. As repo rate was further increased to 7.00 per cent and 7.25 per cent under the liquidity adjustment facility (LAF) on July 25, 2006 and October 31, 2006, respectively, the standing liquidity facility was made available to the scheduled banks and PDs at 7.00 per cent and 7.25 per cent, respectively, with effect from July 25, 2006 and October 31, 2006, respectively.

2.11.4 Liquidity Adjustment Facility (LAF) Scheme:

The LAF has remained a key liquidity management instrument in recent period. It was developed as scheme to address day-to-day changes in liquidity. LAF has turned out to be an important tool for absorbing liquidity surpluses or injecting liquidity depending on the market conditions. In general, LAF has imparted stability to short-term money markets. The overnight rates have, by and large, remained bounded by the LAF corridors. Even in the case of short-run departures, the overnight call rates remain anchored to edges and a correcting mechanism ensures its return. The LAF has succeeded in stabilising short-term interest rate, improving the Reserve Bank's control over it and enabling the Reserve Bank to move rates in alignment with monetary policy stance.

2.11.5 Commercial Paper (CP)

There has been a significant growth in issuance of commercial paper (CP) by companies during the current fiscal year. Outstanding amount of CP increased from Rs.12,718 crore as at end-March 2006 to Rs.23,712 crore by mid-December 2007. The major issuers were 'leasing and finance companies' which accounted for 66 per cent of total outstanding CPs followed by 'manufacturing and other companies' and 'financial institutions' with a share of 20.1 per cent and 13.9 per cent, respectively. The most preferred tenor of CP issuance was periods ranging from '61 days to 90 days' and '181 days and above'.

2.11.6 Certificate of Deposit

The issuance of Certificate of Deposits (CDs) by scheduled commercial banks increased by about 60 per cent; from Rs.43,568 crore at end-March 2006 to Rs.68,911 crore at end-November 2006. The outstanding amount of CDs constitutes approximately 4.5 per cent of the aggregate deposit of banks with significant intra-group variation (very high percentage in respect of a few small banks with lower deposit base and lower percentage for large banks). Increased issuance of CDs during the year 2006-07 was resorted by the banks to augment their deposit liabilities in order to match their higher credit off-take. The fact that CDs can be traded makes them attractive for investors like mutual funds, who look for easily encashable investments.

2.11.7 Bank Rate

The Bank Rate was kept unchanged at 6.0 per cent.

2.11.8 Repo Rate

Taking into consideration the prevailing macro-economic and overall monetary conditions, the Reserve Bank increased the fixed reverse repo rate under the Liquidity Adjustment Facility by 25 basis points to 5.75 per cent with effect from June 9, 2006. The repo rate was increased to 6.75 per cent keeping the spread between the reverse repo rate and repo rate at 100 basis points.

On a further review of the macroeconomic and overall monetary conditions, the Reserve Bank increased the fixed reverse repo rate and repo rate each by 25 basis points to 6.00 per cent and 7.00 per cent, respectively, with effect from July 25, 2006.

On a review of the current macroeconomic and overall monetary conditions, the Reserve Bank increased the fixed repo rate under the LAF by 25 basis points from 7.0 per cent to 7.25 per cent with effect from October 31, 2006, while maintaining the reverse repo rate at 6.00 per cent.

On a further review of the current macro-economic and over all monetary conditions, the Reserve Bank further increased the fixed repo rate under the LAF by 25 basis points from 7.25 per cent to 7.50 per cent wef January 31, 2007 while maintaining the reserve repo rate at 6.00 per cent.

2.11.9 Deposit rates

The term deposit rates of public sector banks moved from 2.75-7.00 per cent at end-March 2005 to 2.25-7.00 per cent at end-March 2006 and further to 2.75-8.00 per cent by December 2006. The term deposit rates of private sector banks and foreign banks changed from 3.00-7.00 per cent each at end-March 2005 to 3.50-7.75 per cent and 3.00-6.50 per cent, respectively, at end-March 2006 and further to 3.00-8.50 per cent and 3.00-8.25 per cent, respectively, by December 2006.

2.11.10 Lending rates

The benchmark prime lending rates (BPLRs) of public sector banks and private sector banks increased from a range of 10.25-11.25 per cent and 11.00-14.00 per cent in March 2006 to a range of 11.50-12.00 per cent and 11.50-15.00 per cent by December 2006, respectively. The BPLR of foreign banks remained unchanged in the range of 10.00-14.50 per cent during the same period.

2.11.11 Food Credit

Food credit limits are disbursed by a consortium of 65 banks [(State Bank of India (SBI), 7 Associate Banks of SBI, 20 other public sector banks, 16 private sector banks and 21 state co-operative banks)] through SBI, the consortium leader, under a 'single window' system. The rate of interest charged at present is 9.7 per cent for State Governments and 8.75 per cent in respect of Food Corporation of India. The total food credit outstanding as on December 14, 2006 was Rs.43,379.47 crore.

2.11.12 Export Credit

The validity of the reduction in ceiling interest rates on rupee export credit at 250 basis points below PLR on pre-shipment credit up to 180 days and post-shipment credit up to 90 days effective from September 26, 2001 has further been extended up to April 30, 2007. In pursuance of the policy of deregulation of interest rates on export credit, with effect from May 1, 2003, the interest rates beyond 180 days for pre-shipment credit and beyond 90 days for post-shipment credit have been made free and are to be decided by the banks subject to the approval of their Boards.

2.11.13 Housing

Housing sector constitutes an important segment of the economy. As per the Eleventh Five Year Plan, there is a large unmet need and a growing demand in housing sector. The outstanding amount of individual housing finance of the banking system as a whole increased on year-on-year basis in the year ended March 31, 2006. However, the absolute incremental credit outstanding in the individual housing loan sector for the year ended March 31, 2006 was marginally lower at Rs.44,840 crore than Rs.45,204 crore for the corresponding period of the preceding year. The increase in percentage terms was also lower showing that the growth in housing finance has slowed down. The same trend has been maintained during the half year ended September 2006.

At present, loans granted by banks up to Rs.15 lakh in rural/semi-urban areas, urban and metropolitan areas for construction of houses by individuals are eligible for classification under priority sector. On the basis of data received from the scheduled commercial banks (excluding RRBs), the credit to housing sector (priority sector) increased from Rs.1,10,283 crore as on the last reporting Friday of March 2005 to Rs.1,26,761 crore as on the last reporting Friday of March 2006, showing an increase of Rs.16,477 crore (14.9 per cent). Other priority sector, comprising, *inter alia*, housing and small road & water transport operators, also

(Amount in Rs.crore)

Table 1.8: Total Credit Outstanding in Housing Finance

Item	April 2005 – Sept. 2005	April 2005 – March 2006	April 2006 – Sept. 2006
Absolute Variation	22,100	44,840	21,779
Percentage Growth	16.46	33.39	12.16

Source: Report on Trend and Progress of Banking in India and off-site returns

recorded a high growth of Rs.58,135 crore or about 34.2 per cent during 2005-06 as compared to 2004-05.

To ensure that asset quality is maintained in view of high credit growth, as announced in the Annual Policy Statement for 2006-07 in April 2006, the general provisioning requirement on standard advances in specific sectors, i.e., personal loans, loans and advances qualifying as capital market exposures, residential housing loans beyond Rs.20 lakh and commercial real estate loans was increased from the present level of 0.4 per cent to 1.0 per cent. Banks extending housing loans to individuals against the mortgage of residential housing properties are required to assign risk weight of 75 per cent on such loans which are fully secured by mortgage of residential properties and investments in Mortgage Backed Securities (MBS) of Housing Finance Companies (HFCs), recognized and supervised by NHB. In the case of MBS of Housing Finance Companies to be eligible for 75 per cent risk weight, securities issued by the SPV should be backed only by assets qualifying for 75 per cent risk weight. In all other cases, it will be 100 per cent. However, the risk weight for commercial real estate exposure was raised to 125 per cent on July 26, 2005 and further to 150 per cent on May 25, 2006.

During the last two to three years, large scale frauds were reported in the area of housing finance and multiple creation of equitable mortgages on the same properties offered to different banks. Fraud Reporting and Monitoring System (FRMS) introduced in 2003 to enable banks to report data relating to frauds in electronic form, was revised in January 2006 to capture granular details of frauds under different categories, including housing loans. As regards multiple creation of equitable mortgages, banks are handicapped to verify the position of encumbrance as also genuineness of the title to the property since at present there is no institutional mechanism for banks to verify the existence of charge (equitable mortgage) on a particular property at a centralised place. To overcome this problem, the Reserve Bank brought to the notice of the State Governments and the Central Government the need for maintaining record of creation of a charge by a bank/FI on an immovable property at a centralised place so as to enable the lending institutions to carry out due diligence before accepting a particular immovable property as a security. However, very few State Governments have initiated action in this regard so far.

The Reserve Bank has issued instructions to banks in November 2006 on the basis of the directions of the Monitoring Committee constituted by the High Court of Delhi regarding unauthorized construction, misuse of properties and encroachment on public land.

Bureau of Indian Standards (BIS) has formulated a comprehensive National Building Code (NBC) of India 2005, providing guidelines for regulating the building construction activities across the country. The Code contains all the important aspects relevant to safe and orderly building development such as administrative regulations, development control rules and general building requirements, fire safety requirements, stipulations regarding materials, structural design and construction (including safety); and building and plumbing services. The boards of banks were advised to consider this aspect for incorporation in their loan policies.

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

- The pooled assets are in respect of direct housing loans which satisfy the definition for inclusion under the priority sector;
- The securitised loans are originated by the housing finance companies/banks; and
- The mortgage backed securities (MBS) satisfy the conditions laid down in paragraph 3 of DBOD's circular DBOD. No. BP.BC. 106/21.01.002/2001-02 dated May 24, 2002.

2.11.14 Small-scale industries (SSI) sector:

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

SSIs as also ancillary units are those units which are engaged in the manufacture, processing or preservation of goods and in which investment in plant and machinery (original cost) does not exceed Rs.1 crore. These would *inter alia*, include units engaged in mining or quarrying, servicing and repairing of machinery. The investment limit of Rs.1 crore for classification as SSI has been enhanced to Rs.5 crore in respect of certain specified items under hosiery, hand tools, drugs & pharmaceuticals industry, stationery and sports goods by the Ministry of SSI, Government of India. Ministry of SSI, Government of India has been dereserving items from the list of items reserved for exclusive manufacture in the small scale industries sector. With the dereservation of 180 items from the above list on May 16, 2006 by the Ministry of SSI, Government of India, the number of items reserved for exclusive manufacture in the small scale industries sector stood at 326.

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

In pursuance to the announcement made by the Union Finance Minister for stepping up credit to small and medium enterprises, public sector banks were advised in August 2005 to take measures to improve the flow of credit to the SME sector. A reporting and monitoring system for the same was also prescribed. Consequent upon the announcement made by the Union Finance Minister on August 10, 2005, a one-time settlement scheme for recovery of NPAs below Rs.10 crore for SME accounts was formulated and advised for implementation by public sector banks.

In pursuance of the announcement made by the Union Finance Minister in August 2005 for improving flow of credit to small and medium enterprises, detailed guidelines on debt restructuring mechanism for units in the SME sector were issued on September 8, 2005 to all scheduled commercial banks to ensure restructuring of debt of all eligible SMEs at terms which are, at least, as favourable as the corporate debt restructuring mechanism in the banking sector. These guidelines are applicable to the following entities, which are viable or potentially viable: (i) all non-corporate SMEs, irrespective of the level of dues to banks; (ii) all corporate SMEs, which are enjoying banking facilities from a single bank, irrespective of the level of dues to the bank; and (iii) all corporate SMEs, which have funded and non-funded outstanding debt up to Rs.10 crore under multiple/consortium banking arrangement. Accounts involving wilful default, fraud and malfeasance, and accounts classified by banks as ‘loss assets’ are not eligible for restructuring under these guidelines. However, banks should review, especially the old cases, where the manner of classification of a borrower as a wilful defaulter was not transparent, and admit deserving cases, subject to the approval of their board of directors, for restructuring. In respect of BIFR cases, banks were required to ensure completion of all formalities in seeking approval from Board for Financial and Industrial Reconstruction (BIFR) before implementing the package. Banks were advised to decide on the acceptable viability benchmark, consistent with the unit becoming viable in 7 years and the repayment period for restructured debt not exceeding 10 years. Banks were required to work out the restructuring package and implement the same within a maximum period of 60 days from date of receipt of requests.

As announced by the Reserve Bank in the Annual Policy Statement for 2005-06, a scheme for Small Enterprises Financial Centres (SEFCs) was worked out in consultation with the Ministry of Small Scale Industries (SSI), the Ministry of Finance, Small Industries Development Bank of India (SIDBI), IBA and select banks, and circulated to all scheduled commercial banks for implementation. The Scheme encouraged banks to establish mechanisms for better coordination between their branches and those of SIDBI, which are located in the clusters identified by the Ministry of SSI, for co-financing of the Small and Medium Enterprises (SME) sector (including tiny and the services sector). Under the SEFCs Scheme, SIDBI has executed Memoranda of Understanding with 16 banks so far.

Credit to small scale industries accelerated during 2005-06 registering a growth of 21.0 per cent during 2005-06 on top of 12.2 per cent growth witnessed during 2004-05. Outstanding credit to small scale industries at Rs.90,239 crore at end-March 2006 constituted 17.7 per cent of the priority sector credit.

2.11.15 Micro, Small and Medium Enterprises Development (MSMED) Act, 2006

The Government of India has since enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 on June 16, 2006, which was notified on October 2, 2006. Consistent with the notification of the Micro, Small and Medium Enterprises Development (MSMED) Act 2006, the definition of small scale industry and micro and small enterprises engaged in providing or rendering of services for the purpose of priority sector lending is being modified as:

Definition of Micro, Small and Medium Enterprises

(a) Enterprises engaged in the manufacture or production, processing or preservation of goods and whose investment in plant and machinery (original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification no. S.O. 1722(E) dated October 5, 2006)

A micro enterprise, where the investment in plant and machinery does not exceed Rs.25 lakh;

A small enterprises, where the investment in plant and machinery is more than Rs.25 lakh does not exceed Rs.5 crore; or

A medium enterprise, where the where the investment in plant and machinery is more than Rs.5 crore but does not exceed Rs.10 crore;

(b) Enterprises engaged in providing or rendering of services such as small road and water transport operators, small business, professional & self-employed persons, etc. and whose investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006).

A micro enterprise, where the investment in equipment does not exceed Rs.10 lakh;

A small enterprise, where the investment in equipment is more than Rs.10 lakh but does not exceed Rs.2 crore; or

A medium enterprise, where the investment in equipment is more than Rs.2 crore but does not exceed Rs.5 crore.

2.11.16 Delayed payment to micro and small enterprises

The existing provisions of the Interest on Delayed Payment Act, 1998 to Small Scale and Ancillary Industrial Undertakings, have been strengthened under the MSMED Act as under:

The buyer to make payment on or before the date agreed on between him and the supplier in writing or, in case of no agreement before the appointed day. The agreement between seller and buyer shall not exceed more than 45 days.

The buyer fails to make payment of the amount to the supplier, he shall be liable to pay compound interest with monthly rests to the supplier on the amount from the appointed day or, on the date agreed on, at three times of the Bank Rate notified by Reserve Bank.

For any goods supplied or services rendered by the supplier, the buyer shall be liable to pay the interest as advised at (ii) above.

In case of dispute with regard to any amount due, a reference shall be made to the Micro and Small Enterprises Facilitation Council, constituted by the respective State Government.

2.11.17 Swarna Jayanti Shahari Rozgar Yojana (SJSRY)

The SJSRY Scheme is in operation since December 1997 in all-urban and semi urban areas of India. Among other components, the scheme has two sub-schemes involving bank credit namely Urban Self Employment Programme (USEP) and Development of Women & Children in Urban Areas (DWCUA).

The beneficiaries are identified by the Urban Local Bodies (ULB) on the basis of house-to-house survey. Under the scheme, women are to be assisted to the extent of not less than 30 per cent, disabled at 3 per cent and SC / STs at least to the extent of the proportion of their strength in the local population. The scheme is funded on a 75:25 basis by the central and respective state government.

Under USEP, underemployed and unemployed urban youth whose annual family income is below the poverty line and who are educated up to ninth standard and who have been included in the list prepared by the ULB are to be assisted with bank loans. Projects costing up to Rs.50,000 are to be financed by banks. Subsidy would be provided by Government at 15 per cent of the project cost subject to a maximum of Rs.7,500. The borrower has to bring in 5 per cent of the project cost as margin money. Interest will be charged as per interest rate directives issued by RBI from time to time. Partnerships are also permitted. Under DWCUA, women beneficiaries may take up self-employment ventures in group. DWCUA group should consist of at least 10 urban poor women The group is entitled to a subsidy of Rs.1,25,000 or 50 per cent of the project cost whichever is less. During the year 2005-06 (up to March 2006) disbursements amounting to Rs.184.29 crore were made in 55,218 cases (out of 68,579 applications sanctioned). Of the above, Rs 49.68 crore were disbursed to 14,695 SC/STs, Rs 100.21 crore were disbursed to l2,599 women and Rs 4.12 crore were disbursed to 919 disabled persons during the year 2005-06. The performance of scheduled commercial banks under the scheme during the years 2003-04, 2004-05 and 2005-06 is given in Table 1.9.

2.11.18 Prime Minister's Rozgar Yojana

The scheme was launched on October 2, 1993 and initially was in operation in urban areas. From April 1, 1994 the scheme is being implemented throughout the country. The objective of the scheme is to provide self–employment opportunities to educated unemployed youth in the age group of 18 to 35 years. In North East states the eligible age group is 18-40. There is 10-year relaxation for SC/ST Ex servicemen/ physically handicapped and women, in the upper age limit. To be eligible for assistance under the scheme the family income of the beneficiaries shall not exceed Rs.40,000 per annum and income of parents of beneficiary also shall not exceed Rs.40,000. The banks have been allowed to make parents/Head of the family of unmarried girl as co-borrower, with effect from November 21, 2002. The borrower should be the resident of the area for more than 3 years. The residency criterion for married men in Meghalaya is relaxed in line with married women in rest of the country.

(Rs.in lakh)

Table 1.9: Performance Under DWCUA

Year	Sanction		Disbursement	
	No.	Amount	No.	Amount
2003-04	73,887	22,756.45	59,648	17,439.73
2004-05	61,890	19,926.83	48,798	15,067.08
2005-06	68,579	22,971.48	55,218	18,429.88

Data as reported by scheduled commercial banks.

(Rs.in lakh)

Table 1.10 Prime Minister's Rozgar Yojna				
ProgrammeYears	Loan Sanctioned		Loan Disbursed	
	No.	Amount	No.	Amount
2002 -2003	2,28,031	1,49,699	1,90,521	1,19,847
2003 -2004	2,64,012	1,67,890	2,19,444	1,36,755
2004 -2005	2,98,033	1,92,325	2,48,264	1,54,279
2005 –2006	3,12,008	2,00,679	2,62,281	1,61,936
2006 –2007(up to Dec- 2006)	95,531	61,061	51,383	32,111

Data as reported by scheduled commercial banks.

The minimum educational qualification fixed is VIII pass. The beneficiary would be required to bring in 5 per cent as margin money and government would provide a subsidy at 15 per cent of the project cost. It has also been provided that the margin money and subsidy amount would be 20 per cent of the project cost. Ceiling on subsidy amount will be Rs.7,500 in States/UTs other than in North Eastern Region. In the seven states in North East the ceiling on subsidy amount payable will be Rs.15,000. This relaxation in parameters has also been extended to the states of Sikkim, Himachal Pradesh, Jammu & Kashmir and Uttaranchal. All economically viable activities including agricultural and allied activities but excluding direct agricultural operations like raising of crops/ purchase of manure etc. are now being covered under the scheme.

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

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

The performance of banks under the scheme during the years 2002-03,2003-04, 2004-05, 2005-06 and 2006-07 (up to December 2006) is given in Table 1.10.

(Rs.in crore)

Table 1.11: Flow of Credit to Minority Communities	
Year	Amount of credit to the minorities in the 44 identified districts
2003-2004	3,583.85
2004-2005	4,608.24
2005-2006	5,125.03

Data as reported by public sector banks

2.11.19 Flow of Credit to Minority Communities

Under the present arrangements, banks have to ensure that credit is made available to the members of minority communities like Sikhs, Muslims, Christians, Zoroastrians and Buddhists in an adequate measure. However, no sub-target has been earmarked to the priority sector lending for the minority communities.

In the recently finalised, Prime Minister's New 15-Point Programme for the Welfare of the Minorities which envisages to ensure that an appropriate percentage of the priority sector lending in all categories is targeted for the minority communities and that the benefits of various Government sponsored schemes reaches the under-privileged which includes the disadvantaged sections of the minority communities, a 15 per cent of the physical targets and financial outlays for the minorities have been earmarked for the concerned ministries implementing the various Government sponsored programmes.

(Rs.in lakh)

Table 1.12 Scheme-wise Performance in NE Region												
	2003-04				2004-05				2005-06			
Scheme	Sanctioned		Disbursed		Sanctioned		Disbursed		Sanctioned		Disbursed	
	No.	Amt	No.	Amt	No.	Amt	No.	Amt	No.	Amt	No.	Amt
SGSY	NA	NA	32,914	2,533	16,570	6,560	60,561	6,057	8,156	5,092	19,671	4,137
SJSRY	3,720	1,705	3,673	1,610	1,754	630	1,664	596	721	293	664	236
SLRS	47	6	41	6	35	5	35	5	0	0	0	0

Data as reported by SCBs

(Rs.in lakh)

Table 1.13 PMRY in NE Region

ProgrammeYears	Loan Sanctioned		Loan Disbursed	
	No.	Amt.	No.	Amt.
2003 -2004	12,584	9,107	10,306	7,591
2004 -2005	14,947	12,926	11,681	8,631
2005 –2006	13,771	12,022	11,728	9,856

Data as reported by scheduled commercial banks.

The data in Table 1.11 above indicate that the flow of credit to these communities in the identified districts by public sector banks has increased from Rs 4,608.24 crore in 2004-2005 to Rs.5,125.03 crore in 2005-06.

2.11.20 Development in the North-Eastern States

The performance by all Scheduled Commercial Banks (SCBs) under SGSY & SJSRY and SLRS in the North Eastern States during the year ended March 2004, 2005 and 2006 is indicated in Table 1.12.

Prime Minister's Rozgar Yojana

The performance of banks under PMRY in the North Eastern Region during the years, 2003-04, 2004-05 and 2005-06 is given in Table 1.13.

2.11.21 Swarnajayanti Gram Swarozgar Yojana (SGSY)

The Ministry of Rural Development, Government of India has restructured IRDP and its allied schemes viz. Training of Rural Youth for self Employment (TRYSEM), Development of Women and Children in Rural Areas (DWCRA), Supply of improved Tool kits to Rural Artisans (SITRA), Ganga Kalyan Yojana (GKY) and Million Wells Scheme (MWS) and has launched a new programme known as Swarnjayanti Gram Swarozgar Yojana (SGSY) with effect from April 1, 1999.

SGSY is a holistic poverty alleviation scheme covering all aspects of self- employment such as organization of poor into self-help groups, training, credit, technology, infra-structure and marketing. The scheme is funded on 75:25 basis by the Central and the respective State Government and is implemented by DRDA through Panchyat Samitis. The scheme lay stress on credit, infrastructure and marketing needs of the beneficiaries and is being implemented by commercial banks, cooperative banks and Regional Rural Banks.

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

The financial year 2005-06 is the seventh year of implementation of the scheme. A total of 12,07,078 swarozgaris have received bank credit amounting to Rs 1,12,542.44 lakh (and Government Subsidy amounting to Rs 39,178.96 lakh) under SGSY as at the end of March 2006.

Under the programme, the following sub-targets have been set: SC/ST 50 per cent, Women 40 per cent and Physically handicapped 3 per cent. As against this, out of the total swarozgaris assisted, 4,26,000 (35.29 per cent) belonged to Scheduled Castes/ Scheduled Tribes (SC/ST), while 6,08,756 (50.43 per cent) were Women and 20788 (1.72 per cent) were physically handicapped.

The performance of scheduled commercial banks under the scheme during the years 2002-03, 2003-04 & 2004-05 and 2005-06 (up to Sept.2005) is given in Table 1.14.

2.11.22 Scheme of Liberation & Rehabilitation of Scavengers (SLRS)

The Scheme was introduced in 1993 and is implemented by all Public Sector Banks except RRBs. The objective of the Scheme is to liberate and rehabilitate scavengers and their dependants from the existing obnoxious occupation of manually removing night soil and filth and to provide them with alternate dignified occupation. The Scheme covers all scavengers and their dependents (both the scheduled caste scavengers and non-scheduled caste scavengers) in the country. Under the scheme projects upto Rs.50,000 can be financed. Subsidy is available to borrowers at 50 per cent of project cost subject to a maximum of Rs.10,000. The borrowers can also avail margin assistance at 15 per cent of the projects cost at 4 per cent rate of interest from State Scheduled Castes Development Corporation. All loans upto Rs.6,500 will be treated as DRI loan at concessional rate of 4 per cent. However, where the amount of loan exceeds Rs.6500/- the entire loan will carry interest as per RBI directive on interest rates. Security for the loan will be only hypothecation of assets created out of the loan. The State Scheduled Caste Development Corporation will have second charge/pari-pasu charge over the assets to cover their margin money loan assistance. The loans shall be repaid within 3 to

(Rs.in lakh)

Table 1.14: Performance of SGSY

Year	Total Loans disbursed	Total Amount disbursed
2003-04	9,91,062	84,08,098
2004-05	10,84,749	95,81,338
2005-06	12,07,078	1,12,542.44

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

(Rs.in lakh)

Table 1.15: Scheme of Liberation & Rehabilitation of Scavengers (SLRS)				
Year	Sanction		Disbursement	
	No.	Amount in lakh	No.	Amount in lakh
2003-04	9,556	1,870.80	7,852	1,378.81
2004-05	10,206	2,134.40	8,209	1,574.22
2005-06	7,952	2,266.55	6,529	1,741.78

Data as reported by PSBs

7 years (inclusive of grace period not exceeding 6 months) depending on the life of the assets created and repaying capacity of beneficiaries.

As on March 2005, of the total 10206 applications sanctioned under the scheme, 8209 cases were disbursed amounting to Rs.1,574.22 lakh by the public sector banks (PSBs). Further during the year 2005-06 PSBs have sanctioned a total number of 7,952 applications under the scheme, out of which 6,259 cases were disbursed amounting to Rs.1,741.78 lakh.

The performance of public sector banks under the scheme during the years 2002-03, 2003-04 & 2004-05 and 2005-06 (up to Sept.2005) is given in Table 1.15.

2.11.23 Educational Loan

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

- It covers courses in school and colleges in India and abroad;
- Loans to be provided up to Rs.7.5 lakh for studies in India and up to Rs.15 lakh for studies abroad;
- No collateral or margin required for loans up to Rs.4 lakh;
- Interest not to exceed PLR for loans up to Rs.4 lakh and PLR +1 per cent for loans above Rs.4 lakh; and
- Repayable over a period of 5-7 years after expiry of the course period.

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

- Up to Rs.4 lakh : No security.
- Above Rs.4 lakh and up to Rs.7.5 lakh: Collateral in the form of a satisfactory third party guarantee.
- Above Rs.7.5 lakh: Collateral security of suitable value or co-obligation of parents/guardians/third party along with the assignment of future income of the student for payment of installments.

Table 1.16:		
Year	Total loans outstanding	
	No. of Accounts	Amount Rs.In crore
2004-05	4,68,207	6,71,316
2005-06	6,79,945	9,95,149
2006-07(upto Sept.,2006)	7,95,938	12,10,639
2006-07(upto Dec.,2006)*	8,97,751	13,42,412

**Information from 7 PSBs is upto Sept., 2006*
Source:IBA

Total number of loan accounts and amount outstanding for the PSBs during the last three years are given in Table 1.16.

2.11.24 National Housing Bank's (NHB's) Activities and Operations

2.11.24.1 Resources

The Bank continued its efforts to build a low cost resource base by tapping diversified sources. During the year [July 2004 - June 2005], the position in respect of funds mobilized is given in Table 1.17.

(ii) Capital Gain Bonds:

With effect from 01.04.2006 NHB is not eligible to issue CG Bonds under section 54EC of the Income-tax Act 1961. Accordingly, the NHB' Capital Gains Bonds Scheme 2002 was discontinued with effect from April 01, 2006.

(iii) Term Loan from various banks

During the year, the Bank availed term loans from various scheduled banks is given in Table 1.18.

(iv) Short term means of funds

The short term requirement of funds was met mainly through CP issuances and facility of Line of Credit against deposits. The Bank issued CPs to the tune of Rs.1,250 crore (Face value), during the year. A short-term bank loan of Rs.130 crore was also availed.

(Rs.in crore)

Table 1.17 NHB - Funds Mobilized

Sr. No.	Source	2005-2006	Percentage	2004-2005	Percentage
1	Capital Gains Bonds	2130.57	32.47	2,997.32	44.34
2	Commercial Paper	1220.03(Outstanding)	18.59	769.61	11.39
3	Taxable Bonds	0.00	0.00	1,100.00	16.27
4	LOC	880.00(Outstanding)	13.41	1,892.31	28.00
5	Term Loan	2300.00	35.05	0.00	0.00
6	Borrowing against fixed deposit	31.27(Outstanding)	0.48	0.00	0.00
	Total	6561.87	100.00	6759.24	100.00

**Sum total includes outstanding balance of CP and LOC*

(v) Long Term Borrowing from Asian Development Bank (ADB)

The loan amount of US$ 13 million from ADB was cancelled by NHB on September 15, 2005.

(vi) Rating of borrowing programme

Ratings have been obtained for Bonds/Commercial Papers of NHB from different rating agencies. Fitch has awarded a rating of 'F1+ (ind)' and ICRA has given a rating of 'A1+' for raising short term resources through issuances of Commercial Papers. CARE has rated the Long Term borrowing programme as 'CARE AAA' while CRISIL has given 'AAA/Stable'. These ratings indicate 'highest degree of certainty regarding timely payment of financial obligation on the instruments.

Developments during July 01- December 31, 2006

The Bank mobilized an amount of Rs.6298.02 crore during the period July 01 to December 31, 2006. The details are given in Table 1.19.

2.11.24.2 Deployment

A. Refinance *:* During the year 2005-06, refinance aggregating Rs.5632.39 crore was disbursed, out of which Rs.222.70 crore was disbursed under the Short Term Financial Assistance Scheme for HFCs.

Out of the total Long Term releases of Rs.5409.69 crore made during the year, 48 per cent aggregating Rs.2609.85 crore have been made under the Golden Jubilee Rural Housing Refinance Scheme (GJRHRS) in respect of loans given by PLIs in rural areas with an interest rate concession of 25-50 bps on refinance.

NHB continues to enjoy the status of being a Nil Net NPA institution. The following modifications were made in the Refinance Scheme of the Bank during the year:

(a) In the wake of damage to life and property caused by the recent earthquake in State of Jammu & Kashmir, NHB announced a scheme in October, 2005 to extend refinance assistance to Housing Finance Companies (HFCs) and Scheduled Banks in respect of their loans for housing in the earthquake affected areas. The objective of this Refinance Assistance was to encourage construction of new houses/flats as also major repairs (including extension and upgradation) of the existing housing stock in the earthquake affected areas as notified from time to time. The Refinance Assistance could be availed at a concessional interest rate of 5.50 per cent p.a.

(b) The Scheme for Short Term Financial Assistance to Housing Finance Companies which had been kept in

(Rs.in crore)

Table 1.18

Bank	Drawn Amount
LIC	500
Corporation Bank	300
Canara Bank	500
Union Bank of India	500
Central Bank of India	500
Total	2,300

Table 1.19

Source	(Rs. in crore)
Line of credit	330.00
Commercial Paper	1,481.48
Borrowing against Deposit	825.67
Term Loan	3378
Taxable Bonds	282.87
Total	6,298.02

Table 1.20: Golden Jubilee Rural Housing Finance Scheme: performance by PLIs (dwelling units)						
Institution	Target		Achievement		% age of Achievement	
	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06
HFCs	92,250	82,500	74,001	68,938	80%	84%
PSBs	1,57,750	1,92,500	1,84,262	2,29,713	117%	119%
Other Institutions	-	-	299	-	-	-
TOTAL	2,50,000	2,75,000	2,58,562	2,98,651	103%	109%

abeyance since 19-01-2006 was modified and made operational again during July 2006.

(c) The Refinance Scheme for Regional Rural Banks (RRBs) was modified to meet their requirements and to help them provide maximum housing loans in rural areas in association with National Housing Bank. The interest rate on refinance to RRBs was made more attractive.

Development during July-December, 2006

(a) The total refinance disbursement for the half year ended 31 December, 2006 amounted to Rs.3309.76 crore including the disbursement under Short Term Scheme for HFCs to the tune of Rs.30 crore.

(b) Project Finance: During the year 2005-06, the Bank sanctioned finance for 4 projects. The disbursals under Project Finance aggregated to Rs.365.13 crore.

Cumulatively, till the end of June 2006, the Bank has sanctioned 388 projects having project cost of Rs 3,354.08 crore and loan component of Rs.2,508.87 crore. Of these 388 projects, 228 projects were financed through the refinancing route and the remaining 160 projects were financed through direct finance window. So far the Bank has disbursed Rs 1,022.85 crore as project finance, of which Rs.777.66 crore was disbursed as direct finance, and the remaining amount as refinance.

2.11.24.2 Golden Jubilee Rural Housing Finance Scheme

The Golden Jubilee Rural Housing Finance Scheme (GJRHFS) was launched in the year 1997-98 with a view to provide improved access to housing finance to people living in rural areas. The Scheme provides for construction of new dwelling unit or upgradation of the existing one. The Scheme is implemented through various PLIs namely HFCs, Public Sector Banks (PSB) and Co-operative sector institutions. NHB is the monitoring agency and fixes annual targets to each PLI.

GJRHFS once again surpassed the target for the year 2005-06. A total of 2,98,651 units were financed by PSBs and HFCs as against the target of 2,75,000 units. The performance of banks and HFCs is given in Table 1.20, above.

Cumulative Performance under GJRHFS

A total of 16.43 lakh dwelling units have been financed as against the target of 16 lakh during the period 1997-2006, thereby indicating a performance of 103 per cent. The progress under the Scheme during the different years has been given in Table 1.21, below.

Keeping in view the compounded annual rate of growth of targets under the Scheme, a target of financing 3,30,000 units during the year 2006-07 has been fixed. The Scheme is being closely monitored by NHB and at the State Level Bankers Committee Meeting Forum for banks.

2.12 Priority Sector Lending:

2.12.1. All domestic scheduled commercial banks (excluding Regional Rural Banks) are required to lend at least 40 per cent of their Net Bank Credit (NBC) to the priority sector. Within this overall target banks are required to lend 18 per cent of NBC to agriculture sector and 10 per cent of NBC to the weaker sections.

The outstanding priority sector advances of Public Sector Banks (PSBs) increased by 34.42 per cent from Rs.3,07,046 crore as on the last reporting Friday of March 2005 to Rs.4,09,748 crore as on the last reporting Friday of March 2006, constituting 40.3 per cent of their NBC. Advances to

(No. of dwelling units)

Table 1.21: Year wise progress under Golden Jubilee Rural Housing Finance Scheme			
Year	Target	Achievement	% age achieved
1997-1998	50,000	51,272	102
1998-1999	1,00,000	1,25,731	125
1999-2000	1,25,000	1,41,363	113
2000-2001	1,50,000	1,58,426	105
2001-2002	1,75,000	1,87,268	107
2002-2003	2,25,000	1,78,200	79
2003-2004	2,50,000	2,43,753	97
2004-2005	2,50,000	2,58,562	103
2005-06	2,75,000	2,98,651	109
Total (1997-2006)	**16,00,000**	**16,43,226**	**103%**

agriculture by PSBs amounted to Rs.1,55,220 crore, constituting 15.3 per cent of NBC as on the last reporting Friday of March, 2006.

Sector-wise break up of priority sector advances of PSBs as on the last reporting Friday of March 2006 is given at Annex-I. Bank-wise details of advances to agriculture and weaker sections are furnished in Annex-II.

2.12.2 Economic Empowerment of Women

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

The banks have been making all-out efforts by redefining their policies/long-term plans by taking into account women's requirements. The credit to women at 2.36 per cent of net bank credit at the end of March 2001 has increased to 5.37 per cent at the end of March 2006. Particulars of credit to women may be seen in Annex-III(i), Annex-III(ii) & Annex-III(iii). There has also been progress in regard to establishment of women cells at bank's Head Offices and some branches, simplification of procedural formalities, orientation of bank officers/staff on gender issues, launching awareness programmes/publicity campaigns about schemes available for women, conducting entrepreneurship development programmes for women, strengthening existing schemes, ensuring sanction of collateral-free loans, involving NGOs/SHGs in providing credit facilities to women entrepreneurs, etc. Eleven banks have opened eighteen specialized branches for women as at the end of March 2006.

In various Government of India schemes for poverty alleviation and self employment viz. Swarna Jayanti Shahari Swarozgar Yojana(SJSRY), Swarna Jayanti Gram Swarozgar Yojana(SGSY), Prime Minister's Rozgar Yojana (PMRY), etc. either a certain share has been allocated to women entrepreneurs or preference is being given to them by the PSBs.

Another important channel for reaching bank credit to the women is Self Help Groups (SHGs). More than 23.72 lakh SHGs have been linked to banks involving a total credit flow of over Rs.12,618 crore as at the end of October, 2006. About 90 per cent of the SHGs credit linked to banks are exclusive women groups.

2.13 The Right to Information Act, 2005

The Right to Information Act, 2005, which has come into force w.e.f. 12.10.2005, is being implemented in Banking and Insurance Division in letter and spirit. Banking and Insurance Division has appointed 13 CPIOs and 18 CAPIOs for looking after the requests received under the Act pertaining to banking and insurance matters. All requests received under the Act till 31.12.2006 have been disposed of.

2.13.1 Action taken on Budget Announcements 2006-07 (Position as on 31.1.2007). Given in Table 1.22.

2.13.2 Common Minimum Program of the United Progressive Alliance (Position as on 31.01.2007). Given in Table 1.23.

Table 1.22

Sl. No.	Para No.	Budget Announcement	Status of Implementation
1.	29	NATIONAL SOCIAL ASSISTANCE PROGRAME Old age pension are granted under the National Social Assistance Programme (NSAP) to destitute persons above the age of 65 years at Rs.75 per month. This is woefully inadequate. I propose to increase the pension to Rs.200 per month. I have provided Rs.1430 crores for 2006-07 and additional funds, if required, will be provided during the course of the year. I would urge State Government to make an equal contribution from their resources so that a destitute pensioners would get at least Rs.400 per month. I also propose to work with the Department of Posts and the banks to establish, within two years, a system under which the pension will be credited directly to the account of the beneficiary in a post office or a bank.	Government has approved the proposal of increasing the pension amount under the National Old Age Pension Scheme from Rs. 75 to Rs. 200 per month with effect from April 1, 2006. Additional Central Assistance is being released to the States at the enhanced rates. *Action completed*In regard to establishing a system under which the pension may be credited directly to the account of the beneficiary in a post office or a bank *within two years,* the process of working out the mechanisms required for crediting old age pension directly to the beneficiaries has been initiated with the State Governments. Progress is being monitored.
2.	47	FARM CREDIT Farm credit increased to Rs.125,309 crores in 2004-05 and is again expected to cross the target of Rs.141,500 crores set for the current year. I propose to ask the banks to increase the level of credit to Rs.175,000 crores in 2006-07 and also add another 50 lakh farmers to their portfolio. We shall not only achieve but exceed the target of doubling farm credit in three years. Since tenant farmers are not adequately served, I have asked the banks to open a separate window for self-help groups or joint liability groups of tenant farmers and ensure that a certain proportion of the total credit is extended to them. I intend to monitor closely progress in this behalf.	As on March 31, 2006, the Commercial Banks, Cooperative Banks and RRBs have extended Rs.1,67,775 crores (provisional) to agriculture and allied sectors. In order to achieve the target of Rs.1,75,000 crore during 2006-07, NABARD has communicated the targets to commercial banks directing them to step up their agriculture disbursement during 2006-07 and also to bring another 50 lakh new farmers into the credit fold. A proposal for financing Tenant Farmer Groups and Joint Liability Groups has been prepared by NABARD. NABARD has also stipulated at least 2% of crop loan to be financed to tenant farmers and oral lessees by the Co-operative Banks. *Action completed*
3.	48	I am aware of the - - - - - - - - - - [The world is his who does his job with compassion]. I am prepared to go the extra mile to come to the aid of our farmers. To begin with, I propose to grant some relief to the farmers who have availed of crop loans from scheduled commercial banks, RRBs and PACS for Kharif and Rabi 2005-06. Accordingly, an amount equal to 2% points of the borrower's interest liability on the principal amount up to Rs. 100,000, will be credited to his/her bank account before march 31,2006. I have provided a sum of Rs.1,700 crores for this purpose. I hope the house will welcome this exceptional gesture of the Government.	An amount of Rs. 1,700 crore has been released on March 31, 2006 to RBI for crediting the accounts of farmers through Commercial Banks, Cooperative Banks and RRBs. *Action completed*

4.	49	For our farmers - - - - - - - - - - -lending more to farmers. It is my intention to ensure that NABARD continues to provide refinance at an economical rate, so that the farmer ultimately gets the loan at a reasonable rate. Government has decided to ensure that the farmer receives short-term credit at 7%, with an upper limit of Rs.300,000/- on the principal amount. This would require a certain level of subvention to NABARD. I propose to give the subvention. This policy will come into force with effect from Kharif 2006-07 and I shall make a detailed statement in due course.	As per guidelines issued by RBI and NABARD, banks have been disbursing short-term credit at 7% up to a limit of Rs.3 lakhs from the Kharif Season 2006. Only those Banks, which have disbursed short-term agricultural credit at 7% or less, are eligible to draw the interest subvention. *Action completed*
5.	50	The Rural Infrastructure Development Fund (RIDF) has so far disbursed funds in 11 tranches. RIDF XI sanctions have touched a level of Rs.7,301 crores as on 31.1.2006. A special feature this year has been that Rs.346 crores has been sanctioned to the N. E. States. This sum is likely to touch Rs.600 crores by the year end. Keeping in view the expanding requirements for creating rural infrastructure, I proposed to increase the corpus of RIDF XII to Rs.10,000 crores, and I urge State Governments to make the best use of these funds.	NABARD has allocated RIDF XII corpus of Rs.10,000 crores for the year 2006-07. Projects amounting to Rs.4,770 crores have been sanctioned to 24 States during the current year so far. *Action completed*
6.	51	I also propose to allow specified projects under the Public Private Partnership (PPP) model to access RIDF funds.	In order to consider new partnerships under PPP model, discussions have been initiated with outside agencies and few State Governments by NABARD. RBI has indicated that financing may be done only through State Governments. Further discussions are being carried out.
7.	52	The rural roads component of Bharat Nirman requires large funds. Hence, I propose to open a separate window under RIDF XII for rural roads with a corpus of Rs.4,000 crores during 2006-07.	Government has approved the proposal to amend the Central Road Fund Act to set up a separate window under RIDF XII for rural roads with a corpus of Rs. 4,000 crores during 2006-07. The M/o Shipping, Road Transport and Highways have introduced a Bill in the Lok Sabha on December 15, 2006. *Action completed*
8.	55	Micro FinanceI had proposed major initiatives in respect of micro finance in the last Budget. RBI has since issued guidelines to enable banks to appoint banking correspondents and banking agents. A window to access ECB funds has also been opened. A Bill to provide a formal statutory framework for the promotion, development and regulation of the micro finance sector will be introduced in this session.	After elaborate discussions with all stakeholders, the Micro Financial Sector (Development & Regulation) Bill, 2006 has been prepared. It is likely to be introduced in the Budget Session of Parliament, 2007.
9.	56	The Self Help Group (SHG) movement is making rapid strides. In the two years of the UPA Government, we have credit-linked	To provide a separate line of credit for farm production and investment activities through SHGs, directions have been issued by NABARD

		801,000 SHGs. The credit disbursed to these SHGs is approximately Rs.4,863 crores. I propose to ask the banking sector to credit- link another 385,000 SHGs in 2006-07. I shall also ask NABARD to open a separate line of credit for financing farm production and investment activities through SHGs.	on June 6, 2006. By 30th November, 2006, 2.16 lakhs SHGs have been credit linked against the target of 3.85 lakhs for 2006-07. *Action completed*
10.	57	The findings of the NSS 59th Round (2003) reveal that out of the total number of cultivator households only 27% receive credit from formal sources and 22% from informal sources. The remaining households, mainly small and marginal farmers, have virtually no access to credit. With a view to bringing more cultivator households within the banking fold, I propose to appoint a Committee on Financial Inclusion. The Committee will be asked to identify the reasons for exclusion, and suggest a plan for designing and delivering credit to every household that seeks credit from lending institutions.	The Report of the Committee on Financial Inclusion, set up under the chairmanship of Shri C. Rangarajan, Chairman, Economic Advisory Council to the Prime Minister, is expected by May, 2007. *Action completed*
11.	63	Recognizing the enormous benefits that the food processing industry can bring to agriculture and job creation and to consumers¸ food processing will be treated as a priority sector for bank credit. NABARD will create a separate window with a corpus of Rs.1,000 crores for refinancing loans to the sector, especially for agro-processing infrastructure and market development. Government will - - - - - national-level institute.	Rs.1000 crore NABARD window:Rs. 1000 crores have been earmarked by NABARD for refinance to the food processing sector. NABARD has been requested to inform all banks/financial institutions about refinance facility of Rs. 1,000 crores exclusively available for food processing industry. Rs. 400 crores has been sanctioned till December, 2006. *Action completed* NIFTEM: Government has approved the setting up of National Institute of Food Technology, Entrepreneurship & Management (NIFTEM) at Kundli (Haryana).Action completed PPRC: The Expert Committee has submitted its report on upgradation of Paddy Processing Research Centre at Thanjavur (PPRC). Detailed Project Report incorporating the suggestions of the Expert Committee is under preparation.
12.	67	Small and Medium EnterprisesIn order to give a fresh impetus to lending by SIDBI, I propose to:(i) Recognizing SMEs in the services sector, and treat the small scale enterprises in he services sector on par with the small scale enterprises in the manufacturing sector;(ii) Raise the corpus of the Credit Guarantee Fund from Rs.1,132 crores at end-March,2006 to Rs.2,500 crores in five years. In 2006-07, I propose to provide a sum of Rs.118 crores;(iii) Advise Credit Guarantee Trust for Small Industries (CGTSI) to reduce the one time guarantee fee from 2.5% to 1.5% for all loans; and(iv) Extend insurance cover to approximately 30,000 borrowers, identified as	(i) The Micro, Small and Medium Enterprises Development Bill, 2006 has been passed by both the Houses of the Parliament. RBI is in the process of revising the priority sector guidelines.(ii) (a) Raising the corpus of CGTSI to Rs.2,500 crores in five years (currently at Rs.1,336 crores) is one of the components of the 'Package for Promotion of Micro and Small Enterprises'.(b) The M/o SSI has made necessary budget provisions of Rs. 118 crores for the year 2006-07.Action Completed (iii) Notification regarding change in the guarantee fee structure has been issued vide CGTSI's Circular dated April 20, 2006.Action Completed(iv) CGTSI has made arrangements with LIC for providing insurance cover to borrowers, identified as chief

		chief promoters, under the CGTSI. The sum assured would be Rs.200,000 per beneficiary and the premium will be paid by CGTSI.	promoters. Insurance cover for Chief Promoters of units with guarantee cover under Credit Guarantee Scheme has been notified in November, 2006. *Action completed*
13.	88	FINANCIAL SECTORAs part of the reforms in the banking sector introduced in 1993-94, capital was infused in the banks by issue of special securities. To date, Government has injected Rs.16,809 crores into nationalized banks. Adding the perpetual securities issued earlier, the total net capital support stands at Rs. 22,808 crores. Thanks to the capital support, a sound banking sector meeting international norms has emerged. We have reached a stage when we can wind up the special arrangements between Government and the banks. Accordingly, after consulting the RBI, I proposed to unwind the special securities through conversion of these non-tradable special securities into tradable. SLR Government of India dated securities. This will facilitate increased access of the banks to additional resources for lending to the productive sectors in the light of the increasing credit needs of the economy.	Government has approved the proposal of conversion of "Recapitalisation Bonds (Special Securities)" issued to Nationalised Banks into "Tradable, SLR Government of India Dated Securities". The detailed features of the securities, phasing, quantum and other modalities are being worked out in consultation with RBI. *Action completed*
14.	89	Honourable members are aware that the K. P. Narasimhan Committee was appointed to recommend a comprehensive law on insurance. The report of the committee has been received, and is being examined by the Insurance Regulatory and Development Authority and the Government. I intend to introduce a comprehensive Bill on insurance in 2006-07.	The proposal to introduce a comprehensive Bill on insurance in 2006-07 is under consideration of the Government. The Bill is likely to be introduced in the Budget Session of the Parliament, 2007.
15.	90	Important Bills to amend the banking laws and for setting up the Pension Fund Regulatory and Development Authority are before Parliament. The Standing Committee on Finance has recommended these Bills. I would urge Honourable Members to cooperate with the Government and pass these Bills. BO-I	i. Pension fund Regulatory and Development Authority BillA proposal for official amendments to the Pension fund Regulatory and Development Authority Bill, 2005 was approved by Cabinet on 24.11.2005, subject to any such changes as may be considered necessary by the Ministry of Finance as a result of follow up discussions. Pending completion of these discussions, a final decision is yet to be taken.ii. RBI Amendment BillThe RBI Amendment Bill has been passed by both the Houses of Parliament and the Amendment Act has been notified.Action completediii. The Banking Companies (Acquisition & Transfer of Undertakings) and Financial Institution Laws Amendment BillThe Banking Companies (Acquisition & Transfer of Undertakings) and Financial Institution Laws Amendment Bill has been passed by both the Houses of Parliament and the Amendment Act has been notified. *Action completed*

Table 1.23

Common Minimum Program of The United Progressive Alliance (Position as on 31.01.2007)

S. No.	CMP Extracts	Comments	Status
1	The UPA government will establish a National Commission to examine the problems facing enterprises in the unorganized, informal sector. The Commission will be asked to make appropriate recommendations to provide technical, marketing and credit support to these enterprises. A National Fund will be created for this purpose.	–	Ministry of Small Scale Industries has already constituted a National Commission on Enterprises in the Unorganized Sector/ Informal Sector, vide Government of India Resolution dated 20th September, 2004. Hence, further progress in the matter may be ascertained from Ministry of Small Scale Industries.
2	The UPA government will give the highest investment, credit and technological priority to the continued growth of agriculture, horticulture, aquaculture, flori-culture, forestation, dairying and agro-processing that will significantly add to the creation of new jobs.	An announcement was made on 18th June, 2004 to increase the flow of agriculture credit by 30% during the current year, 2004-05 with a target of Rs.1,05,000 crore.	The target of flow of credit to agriculture and allied activities in 2006-07 is Rs.1,75,000 crore. The disbursement in 2006-07 up to 31st December, 2006 is Rs.1,49,343 crore.
3	Along with vastly expanding credit facilities for small-scale industry and self-employment, the UPA government will ensure that the services industry will be given all support to fulfill its true growth and employment potential. This includes software and all IT-enabled services, trade, distribution, transport, telecommunications, finance and tourism.	Bank credit is already available to activities enlisted in the program.	In the Union Budget 2006-07, the Hon'ble Finance Minister has inter-alia, announced to recognize SMEs in the services sector, and treat the small scale enterprises in the service sector on par with the Small Scale Enterprises in the manufacturing sector. RBI has been requested to review the priority sector guidelines. It is informally learnt from RBI that the matter is under their active consideration.
4	The rural cooperative credit system will be nursed back to health. The UPA government will ensure that the flow of rural credit is doubled in the next three years and that the coverage of small and marginal farmers by institutional lending is expanded substantially. The delivery system for rural credit will be reviewed.	An announcement was made in the Budget 2004-05 to double the flow of credit to agriculture in the next three years.	The disbursement of agricultural credit is targeted to increase to Rs.1,75,000 crore in 2006-07, which is more than double the flow of agricultural credit of Rs.86981 crore in 2003-04. The revitalization package for the cooperative credit structure involving financial package of Rs.13,596 crore along with other recommendations have been announced for implementation. U.P., Gujrat, Rajasthan, Orissa, Madhya Pradesh, Andhra Pradesh, Uttranchal and Maharashtra have signed the MOU to implement the package.

			Further, Tamil Nadu, Sikkim, Haryana and Bihar have given their consent to implement the package. Discussions for funding have been initiated with ADB, Kfw and the Fund Bank. ADB and Kfw have expressed their willingness to fund this project to the extent of USD 1 billion and Euro 140 million respectively. The Fund Bank has also indicated its willingness to consider funding to the extent of USD 500 million. The report of the Task Force on Revival of Long Term Co-Operative Credit Structure has been received and process of consultation has been initiated. The National Monitoring Committee has been constituted under the chairmanship of Governor RBI and has already held its two meetings.
5	Immediate steps will be taken to ease the burden of debt and high interest rates on farm loans.	The package announced in June 2004 includes relief measures for farmers such as (i) Debt rescheduling and fresh loans for distressed farmers. (ii) One time settlement for small and marginal farmers. (iii) Fresh finance for farmers whose earlier debts have been settled through compromise or write off. (iv) Relief measures for farmers indebted to non-institutional lenders.	The progress in 2006-07 is as follows: A total of Rs.3,928.43 crore has been provided as debt relief to farmers in distress, farmers in arrears and one-time settlement for small and marginal farmers during 2006-07 (up to 30th November, 2006). A relief of 2 per cent on the principal amount up to Rs.1,00,000 each has been provided to the farmers for the year 2005-06. The Government has released a sum of Rs.1700 crore to RBI for crediting the accounts of the farmers. The Government has decided to ensure that the farmers receive short term credit at 7 per cent, with an upper limit of Rs.3,00,000 on the principal amount with effect from Kharif, 2006. The Government is to provide interest subsidy to public sector banks, RRBs and Cooperative Banks to the extent of 2 per cent and concessional refinance to RRB and Co-operative Banks for this purpose.
6	Crop and livestock insurance schemes will be made more effective.	Existing schemes need to be evaluated to see how they can be made more effective. Expert Groups can be set up to submit reports in three months time.	Ministry of Agriculture had constituted a Joint Group on 31st August, 2004 to study improvement in existing crop insurance schemes. The Group has submitted its report. No action is pending at our end. *Action completed*
7	A national scheme for health insurance for poor families will be introduced.	Finance Minister, in his Budget 2004-05 speech, announced a health insurance scheme for the families living below poverty line. A subsidy of Rs.200/-, Rs.300/- and Rs.400/- per annum per family is	Public Sector Insurance Companies have already launched Universal Health Insurance Scheme for coverage of BPL families. *Action completed*

		provided to an individual, family of five and family of seven respectively.	
8	The UPA government will bring about a major expansion in schemes for micro-finance based on self-help groups, particularly in the backward and ecologically fragile areas of the country.	An indicative target of credit linking additional 5.85 lakh SHGs during the period upto March 31, 2007 was set including a target of credit linking 1.85 lakh SHGs in 2004-05 and 2 lakh each in 2005-06 and 2006-07.	Region-wise and agency-wise break-up of target of 3.85 lakh SHGs during 2006-07 have been finalized. As on 31.12.2006, 2.43 lakh SHGs have been credit linked.
9	A major promotional package for the SSI sector will be announced soon. Infrastructure upgradation in major industrial clusters will receive urgent attention.	Major promotional package for SSI needs to be prepared by Ministry of SSI. However, regulation of interest rates must be avoided, as it will adversely affect supply of credit.	A "Policy Package for Stepping up Credit to Small and Medium Enterprises" was announced in August, 2005 in the Parliament with a minimum 20 per cent year on year growth for credit flow to the SME Sector. The Micro, Small and Medium Enterprises Development Act, 2006 has been published in the Gazette of India on 16th June, 2006 by the Ministry of SSI to cater the needs of SME Sector. *Action completed.*
10	Competition in the financial sector will be expanded. Public sector banks will be given full managerial autonomy. Interest rates will provide incentives both to investors and savers, particularly pensioners and senior citizens.	Competition in the financial sector can be expanded partly by permitting FDI and dilution of equity in Public Sector Banks. This will also help in making Public Sector Banks more autonomous and professional. As a first step in this direction the FDI limit in Private Sector Banks has been raised from 49 per cent to 74 per cent under the automatic route, including investment by FIs vide notification dated 5th March, 2004. As per the decision of the Cabinet in this regard detailed guidelines are being finalized by Reserve Bank of India.	Policy constraints as well as the regulatory constraints on competition are being removed by series of measures. Particularly RBI has emphasized corporate governance while moving determinedly away from micro regulation in favour of market discipline. Several measures for enhancing the corporate governance and improving managerial autonomy for Public Sector Banks are under discussions between Government and Reserve Bank. Indian Banks' Association is preparing a policy framework and the Boards are expected to take necessary initiative in this regard. A special facility has already been provided in the Budget for senior citizens. A regulatory regime for pension funds is under active consideration. Several efforts are being made to make interest rates more flexible. Special attention is being given to enhancing the credit at reasonable rates for agriculture and SMEs.Instructions have been issued on 22.2.05 to all Public Sector Banks for managerial autonomy.
		For fulfillment of the above objectives, necessary consultations are already being made with RBI and the Indian Bank's Association. Once, these consultations are over, it is hoped that an Action Plan for fulfillment of the above mentioned objective, in a time bound manner would be finalized	Further, Nationalised Banks have been granted autonomy in respect of appointment of statutory auditors. The banks have been granted options as under:- i) Public Sector Banks may obtain the names of Statutory Central Auditors and Branch Auditors directly from the Comptroller and Auditors General of India (C & AG) and Institute of Chartered Accountants of India (ICAI) respectively and appoint them with the prior approval of Reserve Bank of India. OR

		within the period stipulated by the Prime Minister.	ii) The present practice may be followed and the Reserve Bank of India may appoint the SCAs in consultation with the Government of India.However, the norms of remuneration of SCAs and Branch Auditors shall continue to be prescribed by the RBI. RBI will also continue prescribing the norms for empanelment of SCAs and Branch Auditors in respect of public sector banks.
11	In addition, a social obligation imposed by regulatory bodies on private banks and private insurance companies will be monitored and enforced strictly.	This can be done in consultation with RBI and IRDA.	The Division has written to IRDA to closely monitor these obligations and send periodic reports to the Government. In so far as Private Sector Banks are concerned, the status is as under: As per RBI's report it has issued a circular on 26th July, 2004 to all the domestic scheduled commercial banks reiterating their instructions on priority sector lending and advising them to take appropriate steps to increase the flow of credit to priority sector, agriculture and weaker sections. In addition to effectively monitoring the extension of priority sector advances by private sector banks and ensuring that they achieve the target of 40 per cent, a plan of action to ensure doubling of rural credit through banking system has been put in place and is being closely monitored.
12	Regulation of urban cooperative banks in particular and of banks in general will be made more effective.	For this purpose, the proposed amendment to Banking Regulation Act, needs to be quickly legislated.	An Ordinance has been promulgated on 23rd January, 2007 and a Bill to replace the Ordinance will be taken up in the forthcoming Budget Session of the Parliament, 2007.
13	LIC and GIC will continue to be in the public sector and will continue to play their social role.	The policy at present is to keep them in the public sector.	LIC and GIC are continuing in the public sector.
14	Public sector companies and nationalized banks will be encouraged to enter the capital market to raise resources and offer new investment avenues to retail investors.	Nationalised banks would welcome this measure. They should be encouraged to dilute their equity.	1) In the Action Plan for increasing competition in the financial sector and devolution of full managerial autonomy to the public sector banks, one of the strategies proposed was an amendment to the Acts, 1970/80 to bring down the minimum Government equity to 33 per cent from 51 per cent. PMO has communicated that on this proposal PM has remarked as under: "This item has no relation to the NCMP commitment and may therefore, be taken up separately. However, any decision in this regard to be finalized after discussion in the UPA., Government and Left Coordination Committee". 2. Since October, 2004, seven banks have gone in for a Public issue further diluting percentage of

15	All regulatory institutions will be strengthened to ensure that the competition is free and fair. These institutions will be run professionally.	Reserve Bank of India and Insurance Regulatory Development Authority are two regulatory institutions under the Banking and Insurance Division. The position in respect of these two institutions are as under: 1. Reserve Bank of India has been enjoined with various statutory powers under Banking Regulation Act, 1949. These powers cover both regulatory framework and supervisory mechanism under the above Act. While the regulatory framework refers to policy framework to be followed by banks, the supervisory mechanism refers to mechanism to ensure bank's compliance with policy prescriptions. RBI has been performing the role of a regulator and as envisaged in the Banking Regulation Act, 1949 through its various provisions. However, in view of the recent developments relating to certain banks, it is felt that that RBI needs to strengthen the mechanism further to avoid deteriorations in the functioning of the banks and to strengthen the public faith in the banking industry. RBI has been asked to look into this aspect as to achieve the objective of the common minimum programme of strengthening the regulatory institutions.ii) Insurance Regulatory Development Authority (IRDA).IRDA Act was enacted in the year 1999. IRDA consists of a Chairperson, 5 whole-time and 4 part time members. Out of 4 whole time members, 3 have to be necessarily from Life, General and Actuarial sides. Thus IRDA is being run professionally, as a part from specialization, the appointment of Chairperson & whole time members are done by ACC.To ensure free and fair competition in the market, IRDA has enacted	Government equity There is no change in the position.

		37 regulations. IRDA periodically monitors the observance of these. Competition in the financial sector can be expanded partly by permitting FDI and dilution of equity in Public Sector Banks. This will also help in making Public Sector Banks more autonomous and professional. As a first step in this direction the FDI limit in Private Sector Banks has been raised from 49 per cent to 74 per cent under the automatic route, including investment by FIs vide notification dated 5th March, 2004. As per the decision of the Cabinet in this regard, detailed guidelines were issued by RBI on 28.2.2005 on 'Ownership and Governance of private sector banks' and 'Roadmap for foreign banks presence in India'.For fulfillment of the above objectives, necessary consultations are already being made with RBI and the Indian Bank's Association. Once, these consultations are over, it is hoped that an Action Plan for fulfillment of the above mentioned objective, in a time bound manner would be finalized within the period stipulated by the Prime Minister. In the Insurance Sector, to increase the FDI limit necessary amendments are to be made in the Insurance Act, 1938.	
16	Competition in the financial sector will be expanded. Public Sectors will be given full managerial autonomy. (BOA/IR Sections/ Insurance division.)		The status report is annexed.

Annex – I

Advances to the Priority Sectors by Public Sector Banks (PSBs)
(As on the last reporting Friday of March 2006)

Sector	Amount (Rupees in lakh) June 1969	March 2003	March 2004	March 2005	March 2006@
	(1)	(2)	(3)	(4)	(5)
I. Agriculture	1.7	168	190	202	237
Direct	1.6	165	187	195	219
Indirect	0.1	3	3	7	18
II. Small Scale Industries	0.5	17	17	14	19
III. Other priority sector advances	0.4	85	89	89	92
IV. Total Priority sector advances #	2.6	273	301	314	360
V. Net Bank Credit	-	-	-	-	-

Amount (Rupees in crore)

	June 1969	March 2003	March 2004	March 2005	March 2006@
	(6)	(7)	(8)	(9)	(10)
	162 (5.4)	70,502	84,435	1,09,917	1,54,900
	40	(14.5)	(15.1)	(15.3)	(15.2)
	(1.3)	51,484	62,170	83,038	1,11,636
	122	(10.6)	(11.1)	(11.6)	(11.0)
	(4.0)	19,017	22,265	26,879	43,264
		(3.9)	(4.0)	(3.7)	(4.3)
	257	52,646	58,311	67,800	82,492
	(8.5)	(10.8)	(10.4)	(9.5)	(8.1)
	22	71,197	96.170	1,25,114	1,64,473
	(0.7)	(14.7)	(17.1)	(17.4)	(16.2)
	441	1,99,786	2,44,456	3,07,046	4,10,379
	(14.6)	(41.2)	(43.6)	(42.8)	(40.3)
	3,016	4,85,271	5,60,819	7,17,419	10,17,614

@ *Data are provisional*

\# *Inclusive of advances to setting up industrial estates, funds provided to RRBs by sponsor banks, loan to software industries, food and agro-processing sector, self-help group and venture capital.*

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

Annex – II

Advances of Public Sector Banks to Agriculture and Weaker Sections
(As on the last reporting Friday of March 2006)

(Amount in Rs.crore)

Sr. No.	Name of the Bank	Direct Agricultural Advances		Indirect Agricultural Advances		Total Agricultural Advances		Weaker Sections		Total Priority Sector Advances	
		Amount	% to NBC	Amount	% to NBC	Amount	% to NBC (Target – 18 %)	Amount	% to NBC (Target – 10 %)	Amount	% to NBC (Target – 40 %)
1	2	3	4	5	6	7	8	9	10	11	12
	Public Sector Banks	1,11,636.24	11.0	43,263.88	4.3	1,54,900.12	15.2	78,373.90	7.7	4,10,379.05	40.3
	Nationalised Banks										
1	Allahabad Bank	4,371.83	14.5	1,354.30	4.5	5,726.13	19.0	3,013.78	10.0	12,452.72	41.4
2	Andhra Bank	3,397.63	15.3	666.59	3.0	4,064.22	18.4	2,264.04	10.2	8,923.93	40.3
3	Bank of Baroda	4,885.26	10.5	1,983.80	4.3	6,869.06	14.8	3,748.34	8.1	18,740.09	40.4
4	Bank of India	6,284.00	13.6	2,736.00	5.9	9,020.00	18.1	5,107.00	11.1	22,611.00	49.1
5	Bank of Maharashtra	1,652.24	9.8	1.097.69	6.5	2,749.93	14.3	923.90	5.5	7,206.25	42.7
6	Canara Bank	8,348.00	11.2	3,684,00	4.9	12,032.00	15.7	4,423.00	5.9	30,937.00	41.4
7	Central Bank of India	4,821.54	12.5	2,044.08	5.3	6,865.62	17.0	3,608.10	9.3	17,897.37	46.2
8	Corporation Bank	963,58	4.5	971.22	4.5	1,934.80	9.0	665.32	3.1	9,043.74	41.9
9	Dena bank	1,531.40	10.6	831.21	5.8	2,362.61	15.1	648.75	4.5	6.073.86	42.2
10	Indian Bank	3,570.84	17.0	677.85	3.2	4,248.69	20.2	2,498.28	11.9	10,675.49	50.8
11	Indian Overseas Bank	4,467.36	13.6	1,486.43	4.5	5,953.79	18.1	3,626.57	11.0	14,113.79	42.9
12	Oriental Bank of Commerce	2,241.84	6.8	2,238.16	6.7	4,480.00	11.3	1,561.10	4.7	13,399.14	40.4
13	Punjab National Bank	11,026.28	14.6	3,560.66	4.7	14,586.94	19.1	8,311.00	11.0	33,409.51	44.2
14	Punjab & Sind Bank	1,050.34	11.0	507.18	5.3	1,557.52	15.5	525.61	5.5	3,994.22	42.0

Sr. No.	Name of the Bank	Direct Agricultural Advances		Indirect Agricultural Advances		Total Agricultural Advances		Weaker Sections		Total Priority Sector Advances	
		Amount	% to NBC	Amount	% to NBC	Amount	% to NBC (Target – 18 %)	Amount	% to NBC (Target – 10 %)	Amount	% to NBC (Target – 40 %)
1	2	3	4	5	6	7	8	9	10	11	12
15	Syndicate Bank	4,406.33	13.5	1,464.61	4.5	5,870.94	18.0	3,267.71	10.0	14,626.62	44.9
16	Union Bank of India	5,885.68	11.6	2,241.42	4.4	8,127.10	16.1	3,280.93	6.5	22,232.05	43.9
17	United Bank of India	1,611.00	10.2	716.00	4.5	2,327.00	14.7	1,236.00	7.8	7,109.00	44.8
18	UCO Bank	3,306.00	9.3	1,679.00	4.7	4,985.00	13.8	1,599.86	4.5	14,231.00	40.0
19	Vijaya Bank	1,554.76	9.2	901.02	5.4	2,455.78	13.7	1,011.66	6.0	7,360.61	43.8
	State Bank Group										
20	State Bank of India	23,484.00	10.5	7,032.00	3.1	30,516.00	13.6	19,883.00	8.9	82,895.00	37.0
21	State Bank of Bikaner & Jaipur	2,426.55	15.2	462.57	2.9	2,889.12	18.0	1,526.62	9.5	6,969.97	43.5
22	State Bank of Hyderabad	1,813.73	8.8	1,159.22	5.6	2,972.95	13.3	528.80	2.6	8,767.32	42.3
23	State Bank of Indore	1,676.97	14.1	480.07	4.0	2,157.04	18.1	709.79	6.0	5,189.82	43.6
24	State Bank of Mysore	1,413.60	12.7	243.98	2.2	1,657.58	14.8	1056.91	9.5	4,493.08	40.2
25	State Bank of Patiala	2,518.00	11.4	997.00	4.5	3,515.00	15.9	2,220.00	10.0	8,550.00	38.6
26	State Bank of Saurashtra	1,239.22	15.4	263.24	3.3	1,502.46	18.6	419.18	5.2	3,638.18	45.1
27	State Bank of Travancore	1,554.00	8.8	869.00	4.9	2,423.00	13.3	708.65	4.0	7,966.00	45.2
	Other Public Sector Bank										
28	IDBI Ltd.	134.26	0.3	915.58	1.8	1,049.84	2.0	-	-	6,872.29	13.4

- : NIL/Negligible

Notes: 1. Data are provisional.

2. NBC – Net Bank Credit.

3. indirect agricultural advances taken to the extent of 4.5 per cent of NBC.

Source: Data furnished by respective banks.

Annex – III(i)

Statement Showing Particulars of Credit to Women in the Books of Public Sector Banks for the Quarter Ended March 2006

(Amt. in Lakh)

Name of the Bank	Net Bank Credit	Credit to Women			Of Credit to Women				Of the credit to Women under Priority Sector							
					Under P/S		Under Non P/S		Under Mircro Credit		Under SSI		Under Govt. Sponsored		Other	
		No. of A/cs	Amt. O/s	% to NBC	No. of A/cs	Amt. O/s	No. of A/cs	Amt. O/s	No. of A/cs	Amt. O/s	No. of A/cs	Amt. O/s	No. of A/cs	Amt. O/s	No. of A/cs	Amt. O/s
All bad	3009546	232103	152230.00	5.06	181958	121533.00	50145	30697.00	9973	1961.00	17824	22258.00	88771	15745.00	65390	81569.00
Andhra Bk	2215988	305124	142709.00	6.44	228448	87868.00	76676	54841.00	91820	33170.00	2698	7807.00	61928	11582.00	72002	35309.00
BOB	4639248	289958	211085.78	4.55	210970	135443.38	78988	75642.40	22113	6577.61	4913	2603.94	59332	15166.98	124612	111094.86
BOI	5411521	338267	326223.00	6.03	237959	183850.00	100308	142373.00	145027	58367.00	6980	34063.00	67770	24769.00	85952	91419.00
BOMah	1687234	128679	85612.21	5.07	71692	56249.97	56987	29362.24	6555	3240.70	1019	1042.98	38972	11980.50	25146	39985.78
Can Bk	7475400	757576	470100.00	6.28	620178	350300.00	137398	119800.00	30911	16800.00	12662	33000.00	92795	31500.00	576605	300500.00
C B I	3872000	326913	220601.00	5.7	245326	134777.00	81587	85824.00	81909	37005.00	8575	14977.00	108043	38047.00	84842	63202.00
Corp Bk	2270390	74281	77945.99	3.43	52268	54536.35	22013	23409.64	6601	4895.21	999	2561.07	7121	3274.59	38654	44668.44
Dena Bk	1439344	71005	49802.00	3.46	45199	34809.00	25806	14993.00	2538	1639.50	1365	521.00	30966	8774.00	10330	23874.50
Ind Bk	2051664	362615	150181.81	7.32	257457	109632.72	105158	40549.09	3476	1498.49	1085	2689.02	28348	26329.97	224547	79115.24
I O BK	3290900	409268	173760.00	5.28	294273	104200.00	114995	69560.00	114796	41375.00	2998	10445.00	67693	24016.00	108786	28364.00
O B C	3321115	100968	166238.93	5.01	78866	117090.95	22102	49147.98	10295	2035.07	2308	24821.57	23945	7434.78	42318	82799.53
P N B	7556049	549803	378593.00	5.01	416002	268921.00	133801	109672.00	21388	10409.00	26188	33069.78	194969	60510.00	161960	162171.00
P &S Bk	952014	45114	59753.00	6.28	28606	34960.00	16508	24793.00	2132	1269.00	1026	5917.00	13277	6391.00	12171	21383.00
Synd Bk	3254700	391190	218185.00	6.7	257993	136791.00	133197	81394.00	26313	11942.00	2474	9597.00	17990	5844.00	211216	109408.00
U B I	5064377	324120	241519.68	4.77	290726	192676.95	33394	48842.73	56858	11309.94	7140	35580.91	71511	20518.34	155217	125267.76
UNITED BK	1552200	281603	99976.13	6.44	233465	65641.92	48138	34334.21	76690	9845.01	21743	9239.11	102684	17641.29	34398	23884.99
UCO Bk	3556500	220192	97258.28	2.73	179673	68715.68	40519	28542.60	43051	1275.59	3655	7973.43	92066	18873.44	40901	31593.22
Vijaya Bk	1681747	133512	93362.11	5.55	99185	63724.65	34327	29637.46	14185	3725.78	2223	3099.54	17947	5494.11	64830	51405.22
S B I	22378919	1999506	1124256.00	5.02	1699750	832497.00	299756	291759.00	529671	143069.00	185653	165604.00	298397	151206.00	899560	416249.00
S B B J	1601916	104452	80171.21	5	81265	52780.82	23187	27390.39	3132	835.68	3794	8317.83	11661	2230.71	62678	41396.60
S B Hyd	20902.21	339612	111646.00	5.34	213956	69221.00	125656	42425.00	113074	31386.00	2028	7542.00	27858	7846.00	70996	22447.00
S B Indore	1190835	46965	59482.29	5.5	30758	37483.48	16207	21998.81	730	2460.12	1992	3573.10	22413	7186.00	5623	24264.26
S B My	1117250	95168	56533.00	5.06	56409	29919.00	38759	26614.00	19128	2791.00	3915	856.00	27611	21551.00	5755	4721.00
S B Patl	2215235	47816	114749.17	5.18	34041	60918.96	13775	53830.21	2262	1550.66	9199	10633.13	7506	12183.79	15074	36551.38
S B Sau	806284	55525	47893.00	5.94	29984	28736.00	25541	19157.00	1159	81.00	3598	48.04	6937	2012.00	18290	21839.00
S B Tra	1764077	129909	112557.00	6.38	87428	75585.00	42481	36972.00	30528	13927.00	13465	19765.00	16384	11486.00	27051	30407.00
Total	**95397355**	**8161244**	**5122424.59**	**5.37**	**6263835**	**3508862.83**	**1897409**	**1613561.76**	**1466315**	**454441.36**	**351519**	**477605.45**	**1604895**	**569593.50**	**3244904**	**2104889.78**

Annex – III(ii)

Statement Showing Particulars of Credit to Women in the Books of Public Sector Banks for the Quarter Ended March 2006

(Amt. in Lakh)

Name of the Bank	Of the Credit to Women Under Non-Priority				Credit Extended under different Government Sponsored Programmes											
	Under Medium & Large Industries		Others		PMRY						SJSRY					
					Total Outstandings		Against Women		Percentage		Total Outstandings		Against Women		Percentage	
	No.of A/cs	Amt. O/s	No. of A/cs	Amt. O/s	No. of A/cs	Amt. O/s	No. of A/cs	Amt. O/s	No. of A/cs	Amt. O/s	No. of A/cs	Amt. O/s	No. of A/cs	Amt. O/s	No. of A/cs	Amt. O/s
Alh,bk	311	6814	49834	23883	61540	40275	4924	3375	8	8.38	18425	4810	5542	1510	30.08	31.39
Andhra	45	9017	76631	45824	31143	13902	7817	3618	25	26	12246	2516	2831	617	23	25
BOB	0	0	78988	75642.4	73089	30630.59	10042	3688.34	13.74	12.04	22691	4502.79	5395	892.59	23.78	19.82
BOI	108	19459	100200	122914	75406	35338	9770	4175	12.96	11.81	24124	5762	6847	2108	28.38	36.58
BkOMah	19	39.11	56968	29323.13	35260	14789.34	5766	2391.73	16.32	16.17	8639	1830.41	2749	426.6	31.82	23.3
Can Bk	1723	13200	135675	106600	71127	32611	45200	18000	63.55	55.2	13044	2844	12560	1390	96.29	48.87
C B I	1639	17986	79948	67838	100965	64282	16987	9936	17	15	41089	13382	8050	2797	20	21
Corp Bk	1	1.44	22012	23408.2	14325	6919.93	3071	1475.64	21.44	21.32	2525	513.68	1099	227.01	43.52	44.19
Dena Bk	0	0	25806	14993	22954	9014	3652	1316	15.91	14.6	7710	1289	2126	259	27.57	20.09
Ind Bk	0	0	105158	40549.09	28012	12955.02	3678	1516.23	13.13	11.7	6493	1298.34	438	60.56	6.75	4.66
I O BK	59	5465	114936	64095	40121	16584	7614	5315	19	32	11865	4380	3915	2530	33	57
O B C	365	14115.66	21737	35032.32	28428	13022.08	5148	2476.7	18.11	19.02	7310	1583.14	1960	486.63	26.81	30.74
P N B	112	5148	133689	104524	120586	91546	19052	16049	15.79	17.53	37514	14684	11408	6588	30.4	44.86
P &S Bk	10	1809	16498	22984	18561	10523	3334	2376	17.96	22.58	3051	1083	681	261	22.32	24.1
Synd Bk	269	555	132928	80839	40511	18951	5436	2295	13	12	9689	2528	2679	719	28	28
U B I	629	13172.15	32765	35670.58	73119	37699.7	13593	6697.44	19	18	20539	4684.7	5561	1375.62	27	29
United Bk	246	1786.76	47892	32547.45	38458	20540.49	8029	4124.14	20.88	20.08	4836	1214.33	1471	280.92	30.42	23.13
UCO Bk	24	652.34	40495	27890.26	49343	28391.68	9320	4465.28	18.89	15.73	14907	4189.06	3345	932.85	22.44	22.27
Vijaya Bk	0	0	34327	29637.46	21820	11132.2	5460	2715.02	25.02	24.39	5200	1946.35	2057	486.96	39.56	25.02
S B I	34196	45070	265560	246689	399418	285918	59225	34422	14.82	12.04	75550	21570	17444	7552	23.09	35.01
S B B J	312	3062.66	22875	24327.73	23620	9798.91	1696	438.19	7.18	4.47	14101	2787.24	1455	443.53	10.31	15.91
S B Hyd	3258	1588	122398	40837	61280	24542	14068	3842	22.96	15.65	8015	2118	2210	610	27.57	28.8
SB Indore	1492	2476.59	14715	19522.22	23178	7717	3653	1397	16	18	12952	3103	1843	505	14	16
S B My	216	3268	38543	23346	31219	20815	4605	4103	14.75	19.71	9438	4121	1424	865	15.09	21
S B Patl	881	26804.34	12894	27025.87	31900	15422.13	3055.8	4662.5	9.58	30.24	2441	10791.69	898.71	2276.33	36.82	21.1
S B Sau	14048	9195	11493	9962	19427	2506	2774	262	14.28	10.45	8464	7240	1526	1207	18.03	16.67
S B Tra	8948	16578	33533	20394	19675	12405	7703	4906	39	40	4646	4162	976	1546	21	37
Total	**68911**	**217263.05**	**1828498**	**1396298.71**	**1554485**	**888231.1**	**284672.8**	**150038.2**			**407504**	**130933.7**	**108490.7**	**38953.6**		

Annex – III(iii)

Statement Showing Particulars of Credit to Women in the Books of Public Sector Banks for the Quarter Ended March 2006

(Amt. in Lakh)

Name of the Bank	Credit extended under different Govt. sponsored programmes												Of total credit to women Non-Perorrming Assets		
	SGSY						Others								
	Total Outstandings		Against Women		Percentage		Total Outstandings		Against Women		Percentage				
	No.of A/cs	Amt. O/s	No.of A/cs	Amt. O/s	No.of A/cs	Amt. O/s	No.of A/cs	Amt. O/s	No.of A/cs	Amt. O/s	No.of A/cs	Amt. O/s	No.of A/cs	Amt. O/s	% of NPA to toal credit to Women
Alh,bk	171282	36098	45456	6874	26.53	19.04	111526	9412	32849	3986	29.45	42.35	12208	5683	3.76
Andhra	32014	5685	12137	3214	37	56	100746	22707	39143	4133	39	18	2942	5942	4.19
BOB	39283	8868.88	11891	2530.25	30.27	28.43	125082	40787.98	32004	8055.8	25.59	19.75	21461	7285.71	3.45
BOI	158903	28537	36938	9081	23.25	31.82	134354	88356	14215	9405	10.58	10.64	33012	20828	6.38
BOMah	23595	6732.42	5321	974.91	22.55	14.48	132587	63322.94	25146	8187.25	18.96	12.92	20990	4660.93	5.44
Can Bk	32272	9045	22585	6580	69.98	72.75	21700	5983	12450	5551	57.37	92.78	80913	242	5.14
C B I	138797	43045	37036	11853	27	28	193588	62774	45970	13461	24	21	39909	15571	7
Corp Bk	3330	1105.17	1612	699.22	48.41	63.27	14185	22582.59	1339	872.72	9.44	3.86	8958	4507.31	5.78
Dena Bk	25013	3170	8486	1074.6	33.93	33.9	33830	11107	16702	6124.4	49.37	55.14	9753	2826.62	—-
Ind Bk	37518	8739.37	5934	897.34	15.82	10.27	390123	82513.28	18298	23855.84	4.69	28.91	19451	9023.42	6.87
I O BK	38821	12023	32894	11794	85	98	60874	9468	23270	4377	38	46	39341	15378	8.85
O B C	10963	2455.59	4053	983.39	36.97	40.05	39455	10565.66	12038	3414.35	30.51	32.32	11593	7628.49	4.59
P N B	220234	57488	47451	15222	21.54	26.47	421801	217241	117056	32651	27.75	15.02	59248	15883	4.19
P &S Bk	12737	4771	3257	1344	25.57	28.17	20478	14686	6005	2410	29.32	16.41	7222	7815	13.08
Synd Bk	19286	5953	5546	2131	29	36	23008	4618	4329	699	19	15	24893	8180	3.75
U B I	68224	16603.3	23511	5818.27	34	35	74029	18723.38	28846	6627.01	39	35	38660	11148.28	4.62
United Bk	70176	8958.73	41107	4197.87	58.58	46.86	231753	29839.53	52077	9038.36	22.47	30.29	31971	6924.21	6.93
UCO Bk	141957	21069.91	55318	9629.61	38.97	36.21	84682	21527.49	24083	5845.7	29.32	24.64	29055	3965.59	4.34

Name of the Bank	Credit extended under different Govt. sponsored programmes												Of total credit to women Non-Perorrming Assets		
	SGSY						Others								
	Total Outstandings		Against Women		Percentage		Total Outstandings		Against Women		Percentage				
	No.of A/cs	Amt. O/s	No.of A/cs	Amt. O/s	No.of A/cs	Amt. O/s	No.of A/cs	Amt. O/s	No.of A/cs	Amt. O/s	No.of A/cs	Amt. O/s	No.of A/cs	Amt. O/s	% of NPA to toal credit to Women
Vijaya Bk	6072	1952.05	2660	814.17	43.81	41.71	19973	6265.09	7770	1477.96	38.9	23.59	11059	5499.44	5.89
S B I	464975	169350	88252	30398	18.98	17.95	180560	525212	133476	78834	17.1	15.01	121500	126479	11.25
S B B J	31991	6144.26	4778	899.74	14.93	14.64	24167	3742.09	3732	649.25	15.44	17.34	—-	—-	—-
S B Hyd	43304	7868	10529	2720	24.31	34.57	6280	820	1051	674	16.74	82.2	7396	3330	2.98
SB IND	18276	5073	3580	977	20	19	13803	3318	13337	4307	97	130	5889	2351.15	3.95
S B Mys	4973	1543	2233	650	45.02	42.15	133441	45329	19349	15933	14.5	35.15	11672	4525	8.22
S B Patl	3511	2892.09	2067.42	1142.46	58.89	39.51	134665	37369.22	1484.07	4102.5	1.11	10.98	47	146.2	0.12
S B Sau	14891	1807	2556	262	17.16	14.5	1040	2371	81	281	7.79	11.85	198	20.1	3.62
S B Tra	11328	5876	3949	2284	35	39	11697	6383	3756	2750	32	43	9609	6010	5.34
Total	**1843726**	**482853.8**	**521137.4**	**135045.8**			**2739427**	**1367024.3**	**689856.1**	**257703.1**			**658950**	**301853.5**	

Annex - 4

Common Minimum Programme - Status Report w.r.t. Point 16 & Table 1.23

1. Commercial Banks

The objective of these measures is to ensure that Public Sector Banks function on sound principles of Corporate Governance. The key issue is to design a framework in which the Government will exercise its ownership rights without transgressing the management function of the PSUs.

A. Managerial Autonomy

(a) A Managerial Autonomy package was announced in February, 2005 granting more powers to the PSBs on various operational issues such as:

- Pursue new lines of business as part of overall business strategy.
- Make suitable acquisitions of companies or businesses, close/ merge unviable branches, open overseas offices, set up subsidiaries and exit a line of business
- Decide all Human Resource issues relating to the Bank, including staffing pattern, recruitment, placement, transfer, training, promotions, pensions etc.
- Prescribe standards for categorization of branches, based on volume of business and other relevant factors.
- Prescribe essential academic qualifications, minimum qualification standards and modalities of promotion/ recruitment to various categories.
- Undertake visits to foreign countries to interact with investors, depositors and other stakeholders.
- Lay down policy of accountability and responsibility of Bank officials and take action against erring Bank officials in conformity with such policy. The policy framework should provide for stringent punishment for all malafide actions but, at the same time, recognize that bona fide errors do occur while making decisions relating to commercial judgment.

(b) Following additional autonomy / powers have been granted to Board of Directors of stronger banks exhibiting good performance:

Framing HR policies and procedures. Boards will have the flexibility to frame their own HR policies and procedures for recruitment including eligibility criteria, mode of selection, levels of entry etc.

Creation of additional posts of General Managers Boards would be authorized to create additional posts of General Managers based on need. The policy guidelines will also provide for mobility at the General Manager level between Banks.

Decisions on remuneration and compensation of officers and staff. The overall pay structure of officers and staff is now determined after industry-wide negotiations. The Boards would now be free to sanction differential pay, linked to performance, within the pay scales decided after the negotiations. Such incentives are intended as tangible recognition for a small proportion of personnel in each scale who are genuinely outstanding performers. Specialized cadre can also continue to be provided differential remuneration. This will help banks attract talented individuals in operational areas like marketing, information technology, risk management and credit. Such differential remuneration will be subject to an overall ceiling for establishment expenditure.

Decisions on the amount of contribution to be made to the Staff Welfare Fund. The existing guidelines do not make any distinction between the size of different banks, their varying number of employees and their levels of performance. The guideline prescribing a uniform contribution of 3 per cent of the bank's Net Profit or a maximum of Rs 10 crore will be replaced by an upper ceiling on the contribution to be made per employee.

(c) Nationalised Banks have also been granted autonomy recently in respect of appointment of statutory auditors. These banks have been granted option as under:-

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

OR

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

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

(d) To enable the nationalised banks to take quick and efficient decision making in sanctioning credit and loan settlement proposals, the Boards of these banks have been permitted to delegate enhanced powers to the CMDs / EDs.

B. Increased Public Participation in Equity Capital

The Govt. equity in the nationalised banks has been increasingly diluted and offered to public by way of public issues with a view to have more and more public participation in the affairs of the Nationalised Banks. Out of 19 nationalised banks, 15 have already accessed the capital market. Presently, Government's share in equity of 7 nationalised banks is less than 60 per cent. The existence of private shareholders in the PSBs also imposes a responsibility on the Govt., as a majority shareholder, to enhance the shareholder value and protect minority shareholders' rights. The Govt. intends to create an environment conducive for the PSBs to raise additional funds from the market for meeting Basel II requirements and to respond effectively to emerging competitive pressures. Towards this purpose, RBI has issued guidelines in January 2006 permitting banks to augment their capital funds by issue of various innovative instruments eligible for inclusion as Tier 1/Tier 2 capital.

C. Facilitating Commercial decision-making

To facilitate unhindered quick and efficient decision making Government requested the Central Vigilance Commission (CVC) to review its jurisdiction over officers below Board level of the public sector banks. The CVC has, however, not agreed to the proposal of the Govt. stating that various measures taken by the Commission to streamline the procedure/ systems in various banks including periodic interaction with the CVOs and other officials of the banks, have resulted in perceivable change in the attitude of the officials towards vigilance and it is no longer considered as a threat by honest officers.

D. Competition

Guidelines have been issued by RBI in February 2005 on ownership and governance for private banks. The guidelines provide for higher levels of shareholding, inter-alia, for ensuring restructuring and consolidation simultaneous with compliance of fit and proper criteria.

As a part of the Reserve Bank will be permitted to establish presence by way of setting up a wholly owned banking subsidiary (WOS) or converting the existing branches into a WOS following the one mode presence criterion. The WOS should have a minimum capital of Rs.300 crore and sound corporate governance. The WOS will be treated on par with the existing branches of foreign banks for branch expansion with flexibility to go beyond the existing WTO commitments of 12 branches in a year and preference for branch expansion in under-banked areas. The Reserve Bank would also prescribe market access and national treatment limitation consistent with WTO commitments as also other appropriate limitations consistent with international practices and the country's requirements. Permission for acquisition of shareholding in Indian private sector banks by eligible foreign banks will be limited to banks identified by the Reserve Bank for restructuring. The second phase of the Road Map will commence in April 2009 after a review of the experience gained and after due consultation with all the stakeholders in the banking sector. Extension of national treatment to WOS, dilution of stake and permitting mergers / acquisitions of any private sector banks in India by a foreign bank would be considered, subject to the overall investment limit of 74 per cent.

E. Consolidation

Size is critical for banks since it makes it possible to tap opportunities and overcome competition. With the implementation of Basel II norms from March 2007, weaker banks may have no option but to merge with banks excess capital. Indian banking sector will have to become globally competitive through both organic and inorganic growth.

Consolidation in banking sector has been another feature of the reform process. ICICI took the lead towards universal banking with its reverse merger with ICICI Bank a few years ago. Another mega financial institution, IDBI, has also adopted the same strategy and has already transformed itself into a universal bank. Recently, Centurion Bank merged with Bank of Punjab to create Centurion Bank of Punjab while Federal Bank has taken over Ganesh Bank of Kurundwad. Consolidation between public sector banks is being encouraged but the Government is of the view that the consolidation process needs to be initiated by the banks themselves rather than being mandated by the Government.

Guidelines for merger between private sector banks and between non-banking financial companies and banks have been issued by RBI in 2005 to facilitate the process of consolidation.

2. Regional Rural Banks

As regards restructuring of RRBs, it has been decided that Sponsored Banks should be held accountable for the performance of RRBs. RRBs that adopt a new governance standard and that abide by the prudential regulations will qualify for receiving funds from the Government for their restructuring. In order to consolidate the RRBs sponsored by the same banks within a State, notifications under Sub-Section (1) of Section 23A of RRBs Act, 1976, for amalgamation As on 31 March2006 196 RRBs have been reduced to 133 by way of amalgamation.

3. Cooperative Banks

In order to revitalize the cooperative credit structure, the report of the task Force under Prof. A. Vaidyanathan with regard to short term cooperative credit structure has been accepted for implementation in consultation with State Governments. An interactive session with State Governments on the report was held on 9th September 2005. Further, another discussion was held with a few States on September 29, 2005. Based on the deliberations, a revised package was drafted which envisages a financial package to be shared by Central Government, State Governments and Cooperative Credit Structure in the ratio of 68 per cent, 28 per cent and 4 per cent respectively on an aggregate basis. The revival package includes financial restructuring estimated at Rs.13,596 crore and envisages several legal and institutional reforms. State Governments desiring to implement the revival package for Short Term Credit Cooperatives need to agree, through a Memorandum of Understanding or Exchange of Letters with Government of India, to implement the recommended legal and institutional reforms and share the financial package.

The latest progress in the implementation of the package is as follows:

1. The draft of MOUs has been approved and has been circulated to all State Governments.
2. The Audit format too has been approved and circulated to all State Governments.
3. As of now, seven State Governments namely Gujarat, Rajasthan, Orissa, Madhya Pradesh Andhra Pradesh, Sikkim and Maharashtra have given their consent to the package. Further discussions for signing the MOU with these State Governments is being taken up by NABARD.
4. The National Monitoring Committee has been constituted under the chairmanship of Governor RBI and has held its first meeting.
5. For the relaxation in the package for North Eastern States, the same Task Force under Prof. Vaidyanathan has been asked to work out the same.
6. The auditors have been trained to carry out an audit in the State of Maharashtra. The work will start soon after the MOU is signed.
7. Discussions with Multi-lateral and Bi-lateral agencies for funding have taken place at the level of Secretary (EA) and Special Secretary (FS). ADB along with KfW have committed, in principle, an amount of Rs.2000 crore for this year. DEA has been asked to take further steps to crystallize this commitment.

3. Insurance

3.1. Organisation and Role

Insurance Division is administratively concerned with the activities of both Life and Non-Life Insurance Sectors in India. Its functions include policy formulation in Insurance Sector, Administration of Insurance Act, 1938, Life Insurance Corporation Act, 1956, General Insurance Business (Nationalization) Act, 1972, Insurance Regulatory and Authority Act (IRDA), 1999, periodic review and monitoring of the performance of the Public Sector Insurance Companies, appointment of Chief Executives of Companies and Directors on their Boards, service conditions of Insurance Employees, Co-ordination of vigilance activities in the nationalized Insurance Corporation/Companies, framing of rules under the IRDA Act, 1999 and appointment of Chairperson as well as Members of IRDA.

3.2 The Division headed by the Secretary (Financial Sector) and has one Joint Secretary, one Director, one Deputy Secretary, four Under Secretaries and four Sections.

3.3 The Life Insurance Corporation of India (LIC), the GIC, a re-insurance company, the National Insurance Companies, Oriental Insurance Company, New India Assurance Company and United India Assurance Company are Government owned Companies and subject to the provision of the Insurance Act, 1938, the Life Insurance Act, 1956, the General Insurance Business (Nationalisation) Act, 1972 and Insurance Regulatory and Development Authority Act, 1999. The Insurance Regulatory and Development Authority is a statutory body under IRDA Act, 1999.

3.4 Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes:

In consonance with the National Policy on reservations for SC/ST/OBC, the LIC, the GIC and GIPSA Companies have rules which allow concession and relaxation for the candidates belonging to these categories in recruitment and promotion wherever applicable. The special coaching for SCs/STs employees was also conducted by GIC in order to enable the reserved category employees to acquire knowledge so that they will be able to give a better account of themselves in written test as well interview.

In compliance of Department of Personnel and Training (DOPT)'s instructions, both Life and Non-Life Insurance Companies had launched a Special Drive to fill up the Backlog Vacancies reserved for Scheduled Caste/Scheduled Tribes. Overall 98 per cent of the backlog vacancies had been filled up.

Dr. Ambedkar Welfare Trust of GIC and GIPSA companies have been providing financial assistance and incentives to SC, ST and OBC employees of these Companies with a view to promote their welfare, improvement in the educational and technical skills and carrier advancement. On behalf of Trust, GIC arranged the training on Personality Development for SC/ST and OBC employees in Daman and Mumbai. Training was also imparted to 89 SC/ST/OBC employees in three batches. Various other welfare schemes were also implemented by the Trust for the benefit of SC/ST/OBC employees. Dr. Suraj Bhan, Former Chairman, National Commission for Scheduled Castes, New Delhi alongwith his team visited GIC on 15.06.2006 to conduct a review of Reservation Policy being implemented in General Insurance Corporation of India.

The Parliamentary Committee on the Welfare of SCs/STs visited Goa on 25th January 2007 to review the implementation of Government guidelines on reservation for and employment of SC/ST employees in respect of National Insurance Company (NIC).

In pursuance of the Government guidelines each Insurance Company has a structured mechanism to look after the interests of SC/ST employees in service matters and in particular to ensure that the provisions contained in brochure of SC/ST are strictly adhered to all over the Company.

3.5. Redressal of Public Grievances:

In LIC the trained personnel viz. Customers Relation Executives in the Branch Offices and Customers Relation Managers in the Divisional Offices deal with the complaints from the policy holders, agents, other offices and Government agencies. Grievance Cells at all Offices have been functioning effectively to attend to the grievances of the customers. The aggrieved can meet the Grievance Redressal Officers for settlement of their problems without prior appointment. The names of Grievance Redressal Officers are also published in leading Newspapers for wide publicity.

The Head Office and Regional Offices of GIPSA companies have set up separate Grievances Redressal Department headed by an Officer experienced in Customer services. During the period 2005-06, the performance of GIPSA Companies has been given in Table 3.1, below.

Table 3.1

Company	Grievances outstanding as on 1.4.2005	Grievances reported	Grievances redressed	Grievances outstanding as on 31.3.2006
National	494	1,133	1,439(88.44%)	188
New India	576	1,766	1,880(80.27%)	462
Oriental	104	2,162	2,065(91.13%)	101
United	385	426	570(70.28%)	241

3.6 Reforms in the Insurance Sector

Insurance Reforms were set in with the opening of Insurance Sector and the constitution of Insurance Regulatory and Development Authority (IRDA) through the enactment of the Insurance Regulatory and Development Authority Act, 1999. The Authority is functioning from its Head Office at Hyderabad. The core function of Authority the include (i) Licensing of Insurers and Insurance Intermediaries; (ii) Financial and Regulatory Supervision; (iii) Control and regulation of premium rates; and (iv) Protection of the interests of the policyholders. With a view to facilitating development of the Insurance Sector, the Authority has issued regulations on protection of the interests of policyholders, obligations towards the rural and social sectors, and licensing the agents, Corporate agents, brokers and third party administrators. This is in addition to the regulatory framework provided for registration of Insurance Companies, maintenance of solvency margin, investments and reporting requirement. The Authority, which is responsible for development of Insurance Sector has taken the following initiatives for the growth of Industry:

(i) **Micro-insurance:** For a long time a need has been felt for having insurance product, which can be afforded by the rural and urban poor. Keeping in view the abysmal insurance coverage to the poor (rural and urban), the Authority as a part of its developmental role put across the concept of micro-insurance. The micro-insurance regulations have been designed to provide a broader framework to insurers for reaching the lower and targeted segment of society by offering them customized insurance solutions and for leveraging the reach of institutions already involved in promoting other comprehensive financial solutions. One of the main objectives is to empower the economically weaker section of the society, who is otherwise denied access to financial service. In addition, micro-insurance is one of the components, which could be part of disaster management policy at a macro level. The Authority has initiated the discussions at various fora for inclusion of Micro-Insurance as part of the comprehensive disaster management policy. Further, the Authority has also initiated interaction with all Insurance Companies to take cognizance of the constraints faced for necessary intervention and facilitate a progressive growth of Micro-Insurance business.

(ii) **Detariffication:** Tariff Advisory Committee has notified tariff free regime w.e.f. 1st January 2007. However, to avoid a sudden increase in the Third party insurance premium, IRDA has notified a schedule of premium rates for TP motor insurance for different types of vehicles. IRDA has also directed all the Insurance Companies not to alter the Terms and Conditions of insurance policies till 31st March 2008. Thereafter, they would be free to have their own terms for different policies.

(iii) **Creation of motor pool:** Authority has also created a motor pool. All General Insurers shall collectively participate in the pool from 1st January 2007 to share in motor third insurance business of the commercial vehicles underwritten by them. They would contribute in proportion of their total business if the pool has a deficit at the end of the year.

(iv) **Guidelines on Anti-Money Laundering Programme:** The Authority issued certain guidelines on Anti-Money Laundering (AML), Programme for Insurance Companies on 31st March 2006, requiring the insurers to put in place a proper policy framework by the 1st July 2006. The policy framework has been effected from 1st August 2006. As per guidelines, the obligation to establish an Anti-Money Laundering Programme applies to an Insurance Company and not to its agents and other intermediaries. An Insurance Company should make reasonable efforts to determine and document the true identity of all customers to establish their need for insurance cover to ensure that the insurance being purchased by them is reasonable. For this purpose, all Companies have been advised to classify the customers into high risk and low risk categories based on the individual profile and product profile.

(v) **Health Insurance:** Providing impetus to health insurance was one of the objectives of opening of insurance industry. In this regards, the Authority has constituted a Working Group to examine the impediments to the development of Health Insurance Sector and to recommend steps for their resolution and also the feasibility to reduce the capital requirement to Rs.50 crore. In addition, Authority is also considering to devise a mechanism to enable portability of insurance so that the policyholders have freedom to switch their policies from one insurer to another. The Health Insurance Working Group constituted a Sub-Committee to look into creation of a data warehouse for Health Insurance. Based on the recommendation of Sub-Committee, three Sub-Groups were constituted to look into the areas relating to (i) the recommendations of the data sub-group, (ii) registration of stand-alone Health Insurance Companies and (iii) product innovation in Health Insurance and review of the definition “pre-existing disease”. The Sub-Groups have submitted their recommendations, which are being examined by the Authority.

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

3.7 Obligations of Life Insurers

All the fifteen Insurers, who are in life insurance business during the last six years have met their rural and social sector obligations. The number of policies underwritten by them in the rural sector as a percentage of the total policies underwritten in the year 2005-06 was as per obligations applicable to them. The numbers of lives covered in the social sector were above the stipulated obligations.

In case of LIC, it has been extending coverage to economically weaker section of the society through various Social Security Group Insurance Schemes targeting the masses and non-conventional groups in the unorganized sector. Subsidy on insurance coverage under Janshree Bima Yojana is provided to the members of 44 occupation groups such as power loom workers, handicraft artisans, handloom weavers, unorganized labourers and Aanganwadi workers etc.. Under the Shiksha Sahayog Yojana, scholarships are given to the children whose parents are covered under the Janashree Bima Yojana, without charging any additional premium.

3.8 Obligations of Non-Life Insurers

All the eight private sector non-life insurers met their rural and social sector obligations in the Financial Year 2005-06. While, three Public Sector Insurers complied with the rural sector obligations for the year 2005-06, in case of National Insurance Company there was a shortfall in compliance with regard to their social sector obligations.

3.9 Laying of Annual Reports

As per the provisions of Section 29 of LIC Act, 1956, the Annual Report of LIC for the year 2005-06 were laid on the tables of Lok Sabha and Rajya Sabha. The Annual Report of GIC and four Public Sector General Insurance Companies for the year 2005-06 were laid on the table of Lok Sabha and Rajya Sabha on 15th and 19th December 2006.

3.10 Inspection by various Parliamentary Committee

The Parliamentary Standing Committee on finance visited IRDA on 14th October 2006 at Hyderabad to discuss various issues with the Officials of the Authority. The Parliamentary Standing Committee on empowerment on Women also visited Bombay on 9th January 2007 to discuss the issues relating to insurance schemes being implemented by the Life Insurance Corporation of India for women. The Parliamentary Committee on the welfare of SCs/STs also visited Goa on 25th January 2007 to examine the implementation status of reservation guidelines in respect of National Insurance Company.

3.11 Life Insurance Corporation of India (LIC)

LIC was established on 1st September 1956 to take over the assets and liabilities of the erstwhile insurers and to carry on Life Insurance business in the country. The main objective of the Organisation of the life insurance business was to spread the message of life insurance in the country and mobilize people's savings for nation building activities. The insurance sector stands opened up for competitions from the private life insurance companies. The Corporation also directly transacts life insurance business abroad through its branch offices in U.K., Mauritius and Fiji. Besides the branch operations, the Corporation has established overseas subsidiaries jointly with the reputed local partners in Bahrain, Nepal, Sri Lanka, Saudi Arabia and Mauritius. LIC has announced as on 31.03.2006, the rates of bonus ranging between Rs.24/- to Rs.66/- per Rs.1000/- sum assured under assurances and Rs.18/- to 32/- per Rs.1000/- cash option under annuities depending upon the plan and term of life insurance policies. The interim bonus rates for assurance policies range between Rs.24/- and Rs.66/- per Rs.1000/- sum assured. Further, the Corporation has also declared final additional bonus between Rs.20/- and Rs.1680/- per Rs.1000/- sum assured under assurances depending upon the term and duration of the amount of the sum assured. As on 31st March 2006 LIC had seven Zonal Offices, 1000 Divisional Offices and 2048 Branch Offices. The details of management expenses and the overall expenc ratio is given in Table 3.2.

Table 3.2

Year	Expenses Of Management (Rs.In crore)	Renewal Expense Ratio (%)	Overall Expense Ratio (%)
2001-02	8778.30	4.20	17.72
2002-03	9619.71	#	17.53
2003-04	10920.34	#	17.30
2004-05	12439.93	#	16.57
2004-05	13136.48	#	14.47

*** Figures for the year 2002-2003, 2003-04, 2004-05 and 2005-06 have been regrouped as per IRDA guidelines.*

 # Renewal expense ratio shows negative trend and hence not calculated.

Table 3.3: Position of total year-wise premium

Year	Total Premium Income (Rs.In crore)	% Increase Over Previous Year	Overall Expense Ration (%)
2001-02	(48,963.60) 49,805.93	(43.10)	42.80
2002-03	53,545.40 (54,602.37)	(9.36)	9.36
2003-04	(62,220.65) 63,496.49	(13.94)	16.28
2004-05	(73,506.09) 75,083.37	(15.35)	18.25
2005-06	(89,290.47) 90,759.20	(21.47)	20.88

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

Year-wise of position Life Fund

YEAR	Life Fund (Rs.in crore)	% increase over previous year)
2001-02	232,900.94	24.90
2002-03**	273,004.96	17.22
2003-04**	321,753.53	17.86
2004-05**	385,639.07	19.66
2005-06**	463,147.62	20.05

*** Figures for the year 2002-03, 2003-04, 2004-05 and 2005-06 have been regrouped as per IRDA guidelines.*

Premium Income and Life Fund

The year wise position of the total premium income as well as the Life Fund with the percentage increase over the previous year during the last five years is given in Table 3.3, above.

(i) **Investments:** The total book value of investments of the Corporation and loans outstanding as at the end of 2005-06 was Rs.5,24,017.25 crore as compared to 4,13,800.95 crore at the end of 2004-05.

(ii) **New Business:** (Individual Assurance, General Annuities, Pension, Unit Linked – Bima Plus and Future Plus): During the year ended 31st March 2006 LIC transacted in India new business of Rs.28,852.26 crore under 315.85 lakh policies was generated as against Rs.1,87,132.39 crore under 239.73 lakh policies during the preceding year. The growth in new business was 54.18 per cent in terms of Sum Assured and 31.75 per cent in terms number of policies over the new business of the year 2004-05.

(iii) **Rural New Business:** (Individual Assurance) : The new business written in rural areas during 2005-06 amounts to Rs.60,971.85 crore Sum Assured under 74.66 lakh policies against Rs.46,037.01 crore Sum Assured under 54.84 lakh policies during the preceding year as per the definition of rural/social sector approved by the IRDA. This represents increase of 32.44 per cent of total business of Sum Assured basis and 36.14 per cent on number of policies basis as against 29.12 per cent and 11.81 per cent respectively during the preceding year.

(iv) **Group Insurance Business:** For the year ended 31st March 2006, business under Group Schemes both new and renewed was to the tune of Rs.1,99,427.16 crore providing cover to 302.71 lakh lives against Rs.1,36,286.92 crore providing cover to 306.50 lakh lives during the preceding year. Under Group Superannuation Scheme, new annuities to the tune of Rs.91.10 crore per annum were granted to 0.71 lakh lives as against Rs.82.50 crore per annum to 0.43 lakh lives during the preceding year.

(v) **Social Security Scheme:** The Social Security Fund (SSF) was set up in 1988-89 for providing Social Security through Group Insurance Schemes to the weaker and vulnerable sections of society. Social Security Group Insurance Scheme for the approved occupations belonging to these sections is being subsidized from this fund. The scheme now provides a

Sum Assured upto Rs.5000/- on death with accident benefit of Rs.25000/-. There are 24 approved Occupational Groups belonging to these Sections of these Societies which are:

	Occupation
1.	Beedi Workers
2	Brick Kiln Workers
3	Carpenters
4	Cobblers
5	Fisherman
6	Hamals
7	Handicraft artisans
8.	Handloom weavers
9.	Handloom and Khadi weavers
10	Lady Tailors
11	Leather and tannery workers
12	Papad workers attached to "SEWA"
13	Physically Handicapped Self Employed Persons
14	Primary Milk Producers
15	Rikshaw Pullers/Auto Drivers
16	Safai Karmacharis
17.	Salt Growers
18	tendu Leaf collectors
19	Urban Poor
20	Forest workers
21	Seri Culture
22	Toddy Tapers
23	Power loom workers
24	Hilly Area women

A subsidy of 50 per cent of the premium is granted from the Social Security Fund. This scheme was frozen in the year 2001 at the launch of Janshree Bima Yojana. Now renewals only are allowed under it.

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

3.12 Janashree Bima Yojana

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

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

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

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

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

During the period since its introduction LIC has identified and approved 20 new groups for their eligibility in addition to 24 occupational groups approved under Social Security Schemes.

	Occupation
1.	Foodstuffs as Khandsari/ Sugar
2.	Textiles
3.	Wood products
4.	Paper products
5.	Leather products
6.	Printing
7.	Rubber & Coal products
8.	Candle products
9.	Toys manufacture
10.	Agriculturist
11.	Transport drivers association
12.	Transport Karmacharis
13.	Rural Poor
14.	Construction workers
15.	Fire crackers workers
16.	Coconut processors
17.	Aanganwadi workers and helpers
18.	Kotwal
19.	Plantation workers
20.	Women Association with Self-Help Groups

The number of claims settled by LIC under the above two schemes during the last 5 years

Year	SSGS	IRDP/SGSY
2001-2002	36822	2188
2002-2003	30041	1288
2003-2004	31290	6634
2003-2005	25680	918
2005-2006	23688	495

The number of new lives enrolled and the number of lives for which insurance cover was renewed under the scheme during the last 3 years is as follows:

	2003-04	2004-05	2005-06
New lives	17,32,357	18,19,933	18,38,493
Existing lives renewel	7,74,667	17,19,721	21,48,894
Total	25,07,024	35,39,654	39,87,387

The number of claims settled by LIC during the last 3 years are as follows:

Year	No. of Claims
2003-04	15248
2004-05	16902
2005-06	16559

3.13 Krishi Shramik Samajik Suraksha Yojana, 2001

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

The scheme provides life insurance protection, periodical lump sum survival benefit and pension to the agricultural workers. Persons between the age of 18 years and 50 years can join the scheme. At the commencement of the scheme the minimum membership should be 20. The scheme provides for Rs.20,000/- on natural death, Rs.50,000/- on death/total permanent disability due to accident and Rs.25,000/- on partial permanent disability due to accident before attaining of age 60 years. Besides this, lump sum survival benefit is paid to the member at the end of every 10th year after entry into the scheme. Pension will be paid to the member on reaching age 60.

The member has to pay a premium of Rs.365/- per annum payable quarterly/half yearly/yearly. The Government contributes double the amount through Social Security Fund. In addition, Rs.100/- is drawn from the Social Security Fund as 50 per cent premium for life cover. The Nodal Agency pays the premium on commencement and on each annual renewal date. The Nodal Agency shall mean the Gram Panchayat who identifies agricultural workers and organize them into groups of minimum 20 and submits the details to LIC along with the premium. This scheme was sponsored by the Ministry of Labour. It was frozen in December 2003 and only renewals are allowed now under the Scheme.

The number of new lives enrolled and the number of lives for whom insurance cover was renewed under the Scheme during the last 3 years is as follows:

Year	2003-04	2004-05	2005-06
New lives	7,061	-	-
Existing lives renewed	49,983	36,810	29,074
Total	57,044	36,810	29,074

The number of claims settled by LIC during the last three years are as follows:

Year	2003-04	2004-05	2005-06
No. of claims	271	169	177

3.14 Shiksha Sahayog Yojana (SSY)

In pursuant to the Government's announcement in the Budget 2001-2002, LIC launched the Shiksha Sahayog Yojana for the benefit of children of members of Janashree Bima Yojana. The scheme provides for the scholarship of Rs.300/- per quarter without any additional premium for availing the supplementary benefit of scholarship.

Number of scholarships disbursed during the last 3 years are:

Year	No. of Scholarships
2003-04	1,60,473
2004-05	1,74,179
2005-06	3,20,253

3.15 Settlement of Claims

During the year 2005-06 LIC settled 120.85 lakh claims for total amount of Rs.28472.54 crore compared to 115.04 lakh claims for Rs.23642.54 crore during the previous year. The percentage of outstanding claims to the claims payable during the last five years is given in the following Table :

Year	Per cent of Outstanding Claims as at the end of the year to claims payable during the year	
	% By Number	% By Amount
2001-02	0.69	1.85
2002-03	0.23	1.11
2003-04	0.13	0.88
2004-05	0.14	0.80
2005-06	0.18	0.82

Group	Plan	Term(*)	Reversionary Bonus Rate % of Sum Assured (**)	Interim Bonus Rate % Sum Assured (**)
1	Whole Life type (Plans 2, 5, 8, 28 (Before Conversion), 35, 36, 37, 38, 49, 85 & 86)	66	66	
2	Endowment type (Plans 14, 17, 27 (After Conversion), 28 (After Conversion), 34, 39 40, 41, 42, 50, 54, 79, 80, 81, 84 87, 90, 91, 92, 95, 101, 102, 103, 109, 110 & 121)	< 11 11 to 15 16 to 20 > 20	31 36 40 46	31 36 40 46
3	Money Back and Anticipated Endowment Assurances (Plans 24, 25, 26, 73, 74, 75, 76 & 93)	12 & 15 20 25	30 37 42	30 37 42
4	Jeevan Surabhi (Plans 106, 107 & 108)	15 20 25	32 39 47	32 39 47
5	Jeevan Mitra (Double & Triple Cover plans), Jeevan Sathi, Limited Premium Endowment (Plans 88, 133, 89, 48)	<16 16 to 20 > 20	39 43 47	39 43 47
6	Jeevan Anand (Plan 149)	<11 11 to 15 16 to 20 >20	32 36 40 44	32 36 40 44
7	Jeevan Rekha (Plan 152)	< 11 11 to 15 16 to 20 > 20	48 43 39 33	48 43 39 33
8	Jeevan Anurag (Plan 168)	< 11 11 to 15 16 to 20 > 20	24 28 32 35	24 28 32 35
9	New Jeevan Suraksha – I (Plan 147)	< 6 6 to 10 11 to 15 >15	18 24 28 32	18 24 28 32
10	New Jeevan Dhara - I (Plan 148)	< 6 6 to 10 11 to 15 >15	18 22 26 30	18 22 26 30
11	Jeevan Tarang (Plan 178)	10 15 20	24 28 32	24 28 32

(*) Premium Paying Term in case of Jeevan Rekha (Plan 152);
Accumulation period in case of Jeevan Tarang (Plan 178);
Deferment Period in case of New Jeevan Suraksha – I (Plan 147), New Jeevan Dhara - I (Plan 148);
(**) In case of New Jeevan Suraksha – I (Plan 147) and New Jeevan Dhara – I (Plan 148), bonus rates are per thousand Cash Option;

3.16 New Product Development

The Corporation offers a wide range to cater to the needs of different segments of people of India. There are plans for the children, females and males of all age groups. Further Corporation offers term assurance, endowment, whole life, pension and a combination of different products. The products where returns are linked to market related investments are also being offered since 2001. As at the end of the financial year 2005-06 the Corporation had 43 plans under its basket to offer to new clients.

During the financial year 2005-06 LIC introduced six new plans viz. Jeevan Plus - Unit linked whole life plan, Bima Gold – a closed ended Regular premium money back plan, Bima Bachat - Single premium money back plan, Jeevan Akshay – IV Immediate Annuity Plan, Amulya Jeevan – Term assurance plan with minimum sum assured of 25 lacs, and Jeevan Tarang - with profit whole life plan with provision of annual survival benefit of 5.5 per cent of sum assured for life time after the chosen accumulation period.

Valuation

The latest annual valuation was conducted by LIC as on 31.3.2006. The simple reversionary bonus rates declared are:

Final additional Bonus: In addition, final additional bonus was also declared at rates ranging between Rs.20 and Rs.1,680 per Rs.1,000 sum assured in respect of policies other than Anticipated Endowment, Money Back and Jeevan Surabhi Plans depending upon the term/ duration and sum assured subject to certain conditions.

For Money Back and Jeevan Surabhi Plans, Final Additional Bonus is also payable. The rates of Final additional Bonus ranges from Rs.20 to Rs.100 per Rs.1,000 sum assured.

Loyalty Addition: Loyalty Addition is also declared in respect of Jeevan Shree, New Jeevan Shree and Bima Nivesh 2002 plans which ranges from Rs.40 to Rs.125 per Rs.1,000 sum assured.

3.17 Re-insurance:

LIC has surplus treaty arrangement with a number of reinsurers viz, Swiss Re, Munich and GIC-Re to diversify its risk reinsurance portfolio. This means, over and above a specified retention limit, the risk is reinsured with the reinsurers, which reduces the risk of large sum assured cases.

3.18 Foreign Operations:

The corporation directly operates through its branch offices in Mauritius at Port Louis, Fiji at Suva & Lautoka and United Kingdom at Wembley. During year 2005-06 these three foreign branches together issued 13,463 policies with Sum Assured of US$ 102.65 million and First premium income of US$ 1.66 million. The total business inforce of these foreign branches as at 31st March 2006 was US$ 545.05 million Sum Assured under 99,131 Policies.

LIC also operates through its joint venture companies in Gulf countries through LIC(International)BSC (C), in Nepal through LIC (Nepal) Ltd. and in Srilanka through LIC (Lanka) Ltd. The Joint Venture in Saudi Arabia and Mauritius are yet to commence operations.

3.19 General Insurance Corporation of India (GIC)

General Insurance Corporation of India (GIC Re) was approved as 'Indian Reinsurer' on 3rd November 2000. As an Indian Reinsurer GIC has been giving reinsurance support to four public sector and other private general insurance companies. It continues its role as a reinsurance facilitator by managing Marine Hull Pool and Terrorism Pool on behalf of Indian insurance industry. The Reinsurance programme of GIC aims at optimizing the retention within the country and developing adequate reinsurance capacity.

During the year the Corporation continued to offer maximum support for all classes of business to the Indian insurers. It has continued with the Peak Risk Facility thereby increasing the GIC's capacity for high value risks to Rs.3,000 crore from Rs.1,500 crore. The capacity of the Terrorism Pool managed by GIC has increased to Rs.600 crore per location w.e.f. 1.4.2006 from Rs.500 crore. GIC continues to lead the reinsurance programme of the companies in Kenya, Malaysia, Mauritius, Middle East, Africa and Sri Lanka. In the process it has emerged as a preferred Reinsurer in the Afro Asian region. During the year 2005-06, the net premium of the Corporation is Rs.4,234.88 crore as against Rs.4,613.87 crore in 2004-05. The net incurred claims were at Rs.4,573.07 crore in 2005/06 as compared to Rs.3,702.80 crore in the previous year, an increase of 23.50 per cent. (The 2005-06 premium figures (Domestic) are for the period April 2005 to December 2005 whereas the claims provisioning has been done for all the four quarters based upon actuarial calculations. As a result, the premium figures as well as the net underwriting results for various classes under Indian business segment are not comparable with previous year's figures) The Corporation has recorded Profit after Tax of Rs.598.52 crore for 2005/06 as against Rs.200.02 crore in 2004/05. The corporation declared a dividend of 20 per cent for the year amounting to Rs.86 crore.

The Corporation has its presence in foreign reinsurance business through its representative offices in London and Moscow. Dubai office has started functioning as a branch office from 1.1.2007. Apart from reinsurance business, GIC continues to participate in the share capital of Kenindia Assurance Company Ltd (Kenya), India International Insurance Pte Ltd., Singapore and LIC (Mauritius) Offshore Ltd., a joint venture company promoted by LIC of India in Mauritius.

3.20 Public Sector General Insurance Companies

After de-linking from GIC, the four general insurance companies, namely, National Insurance Co. Ltd., New India Assurance Co. Ltd., Oriental insurance Co. Ltd., and United India Insurance Co. Ltd. Formed an association known as 'General Insurance (Public Sector) Association of India (GIPSA) with its headquarters at New Delhi. The four companies have a network of 95 Regional Offices, 1,366 Divisional Offices, 2,535 Branch Offices in India and 305 Extension Counter/Micro Offices. The companies also have 44 overseas offices spread over 26 countries. The Gross Premium Income of these companies during 2005-06 was Rs.15,977 crore as against Rs.14,949 crore during 2004-05, representing a growth of 6.88 per cent The net worth of these four companies as on 31st March, 2006 stood at Rs.9,654 crore (Rs.8,422 crore). Profits after Tax for the year 2005-06 increased to Rs.1,311 crore from Rs.1,172 crore in 2004-05. The companies have paid a total dividend of Rs.266 crore (Rs.197 crore) to the Government. With the entry of private players, the share of PSU General Insurers has gone down over the years. The market share of these companies stood at 73.37 per cent in 2005-06 as against 77.49 per cent in 2004-05.

Universal Health Insurance Scheme (UHIS)

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

3.21 Agriculture Insurance Company of India Limited (AICL)

Agricultural Insurance Company of India Limited (AICL) was established on 20th December, 2002 to promote crop insurance business and to protect the farmer against the crops losses suffered due to natural calamities. General Insurance Corporation of India (GIC), NABARD and four public sector general insurance companies have contributed towards the share capital of the Company. The authorized capital of the company is Rs.1,500.00 crore with initial paid-up capital of Rs.200.00 crore. The company is located in New Delhi. The company received approval from Insurance Regulatory and Development Authority (IRDA) on 12th March, 2003 to transact crop insurance business.

3.22 National Agriculture Insurance Scheme (NAIS):

The Government of India introduced the scheme from Rabi 1999-2000 season to protect the farmers against losses suffered by them due to crop failure on account of natural calamities, such as, drought, flood, hailstorm, cyclone, fire, pest/diseases etc. so as to restore their credit worthiness for the ensuing season. The scheme is currently implemented by Agriculture Insurance Company of India Ltd. (AICIL). The scheme is available to all the farmers' loanee and non-loanee, irrespective of size of their holding. The scheme covers all Food crops (cereals, millets and pulses), Oil seeds and Annual horticultural/Commercial crops covered under NAIS are sugarcane, potato, cotton, ginger, onion, turmeric, chilly, jute, tapioca, annual banana, pineapple, jeera, garlic, Coriander, Methi, Isabgol and Sonf. All the Annual Horticultural/ Commercial crops can be covered subject to the availability of the past yield data. For Kharif crops, the premium rates for Bajra and Oil-seeds are 3.5 per cent of sum insured or actuarial rates whichever is less, while for cereals and other millets and pulses, the premium rates are 2.5 per cent of sum insured or actuarial rates whichever is less. For Rabi crops the premium rates for wheat is 1.5 per cent of sum insured or actuarial rates whichever is less, while for cereals, and other millets and pulses, the premium, rates are 2 per cent of sum insured or actuarial rates whichever is less. 50 per cent subsidy in the premium is allowed in case of small and marginal farmers. The subsidy in the premium is to be phased out under the scheme on the sunset basis over a period of five years. At present, 10 per cent subsidy on premium is available to small & marginal farmers.

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

The performance under NAIS during 2005-06, is given in the following Table :

No.	Particulars	Kharif	Rabi 2005	Kharif 2005-06 2006**
1.	Farmers Covered	1,26,73,863	40,48,303	98,82,951
2.	Sum Insured	13,519.08	5,070.65	10,797.48
3.	Premium	449.91	104.80	342.38
4.	Claims paid	894.06	139.86	Claims Yet to be reported.
5.	Claims Payable	160.00	113.94	

*** Provisional*

3.23 Audit Paras

Audit Paras against Insurance Regulatory and Development Authority (IRDA), General Insurance Corporation of India (GIC) and four Public Sector General Insurance Companies for the year 2006 are being ascertained from of the Comptroller and Auditor General of India and insurance companies pertaining to the year 2006 are given in the annex.

4. Budget Division

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

4.1.2 Matters relating to Duties, Powers and Conditions of Service of the Comptroller and Auditor General of India, submission of the Reports of the Comptroller and Auditor General of India relating to the accounts of the Union to the President for being laid before Parliament and 38 (re)entrustment of audit of various bodies to the C&AG of India are also handled by this Division. During the calendar year 2006, 24 reports of the C&AG of India were laid before the Parliament.

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

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

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

4.2 Public Debt, Liabilities and Cash Management

4.2.1 Public debt of the Central Government has witnessed continuous growth due to persistent recourse to deficit financing, albeit at a moderated pace during last few years. Other internal liabilities have shown growth mainly on account of small savings collections, which till now are being fully passed on to the State/UT Governments. As per Revised Estimates, 2006-07, total outstanding liabilities, including external debt at current exchange rate, as percentage of GDP, is estimated to decline to 64.4 per cent and further to 61.4 per cent in BE 2006-07.

4.2.2. Overtime the pattern of financing fiscal deficit has undergone a significant change. More than 90 per cent of deficit is being financed through domestic resources and within domestic resources, greater reliance is being placed on market loans with market determined rates of interests rather than on instruments with administered rates of interests.

4.2.3. The Central Government's normal borrowing through issue of dated securities for financing the fiscal deficit has been budgeted at Rs.1,46,532 crore (Gross) and Rs.1,07,453 crore (net of repayment of Rs.39,079 crore) as per RE 2006-07. The actual issue of dated securities during the year (upto February 28, 2007) has amounted to Rs.1,39,000 crore (Gross) and Government has announced borrowing of Rs.7,000 crore through auctions on March 09, 2007. During the year, Government has continued with the policy of announcement of half yearly indicative market borrowing calendar based on its core borrowing requirements. It has also continued with passive consolidation of Government securities, with all issues during the year, other than three fresh issues, being re-issues of securities. In order to build on the benefits of passive consolidation being pursued, Government, in consultation with RBI, has finalized a scheme for active debt consolidation during 2007-08 for which separate budgetary provision is being made.

4.2.4. The weighted average cost of Central Government market borrowings through issue of dated securities has witnessed an increase to 7.84 per cent (upto December, 2006) as compared to 7.32 per cent during the corresponding period of previous year. The weighted average maturity of dated securities issued during the year, upto December, 2006 works out to 14.07 years, as against higher 15.65 years during the corresponding period in previous year. The increase in the weighted average cost of market borrowing has a bearing on the interest payment expenditure of the Central Government.

4.2.5. FRBM Act, 2003 prohibited participation of RBI in the primary government securities market with effect from April 1, 2006, implying discontinuation of the earlier available facility of private placement of securities with RBI and devolvement to RBI in an auction process. RBI and Government had worked out arrangement for smooth transition to the new arrangement.

4.2.6. The new arrangement, inter alia, included a more flexible Ways & Means Advance (WMA) arrangement for the Central Government with quarterly ceiling, instead of earlier half-yearly ceiling, and the first quarter ceiling being fixed at Rs.20,000 crore. The second quarter ceiling was fixed at Rs.10,000 crore and third and fourth quarter ceilings were retained at Rs.6,000 crore. Provision has also been made for revision of the quarterly ceiling, should such eventuality arise. However, it is a matter of satisfaction that the actual transition was very smooth, without requirement to take recourse to the enhanced quarterly WMA ceiling or revise the quarterly ceiling. Infact, for most days of the year, Central Government account has been placed in surplus cash balance position, with recourse to WMA being rather limited. The surplus position was mainly on account of investments in 14 days intermediate treasury bills by State Governments arising from persistence of their surplus cash balance position, despite decline in small savings transfers.

4.2.7. During the year, the benchmark for the rates of interest on WMA and Overdraft (OD) was changed from Bank Rate to Repo/Reverse Repo Rate, in line with the change for the State Governments in pursuance of the recommendations of Mr. Bezbaruah Committee and in view of the fact that Repo/ Reverse Repo rates are more appropriate indicators of short term interest rates than Bank Rate.

4.2.8. In 2006-07, the notified amounts for auctions of 91 days (weekly), 182 days (fortnightly) and 364 days (alternate fortnightly) treasury bills were retained at the levels of 2005-06.

4.2.9. During the year, Central Government has, in addition to the normal market borrowing programme, issued Special securities to Oil Marketing Companies (OMCs) for an amount of Rs.19,150 crore in four tranches during the second half of the financial year. It has also issued Special securities for an amount of Rs.16,200 crore to Food Corporation of India (FCI) as a one-time measure to liquidate the outstanding liabilities of Central Government on account of non-payment of dues for foodgrains lifted during the second half of the financial year.

4.2.10.Central Government has also undertaken the first tranche of phased conversion of Recapitalization Bonds issued to nationalized banks by issue of SLR dated securities for an amount of Rs.8,707.99 crore on February 15, 2007. It is proposed to complete the conversion of the balance amount during the next financial year.

4.2.11.To enable RBI to better manage liquidity situation in the economy arising largely on account of large foreign exchange inflows, RBI & GOI have signed a Memorandum of Understanding (MOU) regarding Market Stabilization Scheme, which basically entails that GOI, on the advice of RBI, borrow funds through dated securities and treasury bills and sequestering the same in a separate account. These funds are not to be used by GOI for any purpose other than for redemption of the instruments. The borrowings under the Scheme would impact the fiscal deficit to the extent of interest/ discount liabilities on the borrowings, reflecting the direct fiscal cost of monetary sterilization. However, the principal amount itself would not affect the fiscal deficit, as funds are not utilized by GOI. The Scheme came into effect from April 1, 2004. The annual ceiling for 2006-07 was fixed at reduced level of Rs.70,000 crore, with threshold level of Rs.60,000 crore, as against Rs.80,000 crore and Rs.70,000 crore, respectively in 2005-06. The ceiling and threshold for FY 2007-08 have presently been fixed at Rs.80,000 crore and Rs.70,000 crore, respectively.

4.2.12. Gross market borrowings of State Government during the current fiscal year, upto December 18, 2006, was Rs.12,989 crore as against gross allocation of Rs.24,851 crore (52.27 per cent of gross allocation) through six tranches of auctions. The significant development during the year is that there has been no tap sale of State Development Loan conducted during 2006-07 in the said period. The cut-off rate arrived in the auctions have ranged between 7.65-8.66 per cent for 10 year maturity.

4.2.13. Government Securities Bill, 2004 that was introduced in Lok Sabha during the winter session of 2005 seeking to repeal the archaic Indian Securities Act, 1920 and replace the existing Public Debt Act, 1944 was passed by both the Houses of Parliament and has also received the assent of the President of India. Government Securities Act, 2006 incorporates features which are necessary in a modern and vibrant debt market and removes cumbersome and outdated procedures. The GS Act, 2006 has, however, not come into force pending finalization of the relevant GS Regulations.

4.2.14.With the objective to improve the Cash Management System in the Central Government, a modified cash management system, including exchequer control based expenditure management system was introduced in respect of fifteen demands for grants with effect from April 1, 2006. The Modified Cash Management is being extended to nine more demand for grants with effect from April 1, 2007, taking the total number of demand for grants covered under the system to twenty three after merger of demand for grants pertaining to Department of Health and Department of Family Affairs.

4.2.15. The guidelines have also been revised to provide that the Monthly Expenditure Plans may be drawn up to be consistent with the advice of Ministry of Finance to restrict the expenditure in the last quarter of the financial year to 33 per cent of the budget estimate. It has also been provided that the expenditure in the month of March may not exceed 15 per cent of budget estimate within the overall quarterly ceiling. The guidelines regarding the restrictions on the expenditure in the last quarter and last month of the financial year apply in respect of all demand for grants and for the current financial year as well. It is expected that the revised and expanded cash management system would bring about greater evenness in expenditure and further reduce the problem of rush of expenditure at the end of the year and parking of funds.

4.3 National Small Savings

4.3.1 National Development Council (NDC) Sub-Committee on NSSF

A Sub-Committee of the National Development Council (NDC) was set up on 16th September, 2005 under the Chairmanship of Union Finance Minister with Deputy Chairman, Planning Commission, Governor, Reserve Bank of India represented by Deputy Governor, Finance Ministers of Andhra Pradesh, Chhattisgarh, Punjab, Tamil Nadu and West Bengal, Secretary (Expenditure), and Secretary (Economic Affairs), Ministry of

Finance as its members to examine the issue of debt outstandings of the States against the National Small Savings Fund (NSSF). The Sub-Committee gave the following recommendations.

(i) The small savings collections will be shared between the States and the Centre in the ratio of 80:20 (vis-à-vis the present arrangement of 100 per cent transfer of collections to the State Governments) with the option to the States to take upto 100 per cent of their collections. The revised sharing pattern will be effective from 1st April, 2007.

(ii) The interest rates on loans taken by State Governments from NSSF from 1999-2000 to 2002-03 will be reset at 10.5 per cent with effect from 1st April, 2007.

(iii) The interest rate on current NSSF loans will continue at 9.5 per cent.

(iv) Request of State Governments for additional open market borrowing to enable them to repay non-NSSF loans will be considered on a case to case basis.

(v) Requests of State Governments for prepayment of NSSF loans contracted upto 2002 – 2003 will also be considered on a case to case basis within the approved market borrowing ceilings.

The National Development Council in its meeting held under the Chairmanship of the Prime Minister on 9th December 2006 has inter-alia, endorsed the above recommendations of the NDC Sub-Committee.

4.3.2 Small Savings Collections

The gross small savings collections (excluding collections under the Deposit Scheme for Retiring Employees) during 2006 – 07 (upto December, 2006) were Rs.1,28,855 crore as against the collections of Rs.1,48,183 crore during the same period last year. The net collections (gross collections minus repayments to depositors) during the same period were Rs.42,470 crore as against Rs.62,040 crore last year. An amount of Rs.53,844 crore has been transferred as share of net small savings collections to the States and Union Territories (with legislature) upto 31st January, 2007 during the current fiscal as against the sum of Rs.72,473 crore transferred during the corresponding period last year.

4.3.3 Measures for Improved Interface with the Public

Central and State Governments take various measures from time to time to promote and popularize small savings schemes through print and electronic media as well as holding seminars and meetings, providing training to the various agencies involved in mobilizing deposits under various small savings schemes.

National Savings Institute, a subordinate organisation under the Department of Economic Affairs (Budget Division) has launched its website, i.e. **nsiindia.gov.in** on 30th May 2006, in collaboration with National Informatics Centre to facilitate interface with the public through wider dissemination of information on small savings. The service also offers on-line registration and settlement of investors' grievances. As on 19th February 2007, NSI had registered a total of 340 complaints since launch of the website, out of which 279 complaints have been settled using the online platform. The remaining 61 complaints are in the process of redressal in consultation with the Department of Posts, agency banks and the State Governments as the case may be. With a view to improving the accountability of the Government to the small investors, National Savings Institute has formed coordination committees at State level chaired by Regional Directors of NSI, with representatives of concerned State Government, Department of Posts, Banks and agents in each state. During the period April 2006 to December 2006, no less than 30 meetings of coordination committees have been held in 21 different States/Union Territories including Assam, Meghalaya, Mizoram, Tripura, Sikkim, Delhi, Andhra Pradesh, Karnataka, Chandigarh, Haryana, Himachal Pradesh, Punjab, Gujarat, Rajasthan, Kerala, Tamilnadu, Puducherry, Uttar Pradesh, Uttarakhand, West Bengal and Bihar.

4.4 Hindi Branch

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

4.4.2 The translation of other documents as envisaged in the Official Language Act, 1963 and Rules made there under was also undertaken by the Hindi Branch during the year under report. These include agreements with Foreign Government and International Agencies, Cabinet Notes, Parliament question/assurances, notifications, Standing Committee/Public Accounts Committee papers, monthly summary for the Cabinet, External Assistance Report, and Twelfth Finance Commission Report etc. During 2006-2007 Hindi Branch translated 11 agreements.

5. Capital Markets Division

5.1 Regulatory Establishments Section

The Regulatory Establishments Section is a new Section of the Capital Market Division in the Department of Economic Affairs to look after the establishment work of Pension Fund Regulatory & Development Authority (PFRDA), Securities and Exchange Board of India (SEBI) and Securities Appellate Tribunal (SAT).

5.2 The Functions of the RE Section are as under:

- Pension Fund Regulatory and Development Authority (PFRDA) Establishment.
- Securities and Exchange Board of India (SEBI) Establishment.
- Securities Appellate Tribunal (SAT) Establishment.
- Related Rules and Regulations of SEBI, SAT & PFRDA
- High Level Committee on Financial Markets
- Regional Financial Center, Mumbai Committee
- Taxes and stamp duties in securities and pension markets
- Companies Act related matter

5.3 Developments in the Securities Markets during 2006-07

Primary Markets

(i) SEBI Disclosure and Investor Protection (DIP) Guidelines, 2000 relating to book-building issues were amended to introduce a specific allocation of 5 per cent for Mutual Funds, proportionate allotment to Qualified Institutional Buyers (QIBs) and margin requirement for QIBs.

(ii) In order to ensure availability of floating stocks on a continuous basis and maintain uniformity for the purpose of continuous listing, it was decided to amend SEBI (DIP) Guidelines, 2000 prescribing minimum public shareholding of 25 per cent in case of all listed companies barring a few exceptions.

(iii) In order to rationalize the disclosure requirements, it was decided to do away with voluminous and repetitive disclosures in case of rights issues and public issues by the listed companies which have a satisfactory track record of filing periodic returns with the stock exchanges and have a comprehensive mechanism for satisfactory redressal of investor grievances.

(iv) Following recommendations of the Jagdish Capoor Committee, it was decided to resume in phases registration under the MAPIN Regulations to obtain the Unique Identification Number (UIN) with biometric impression for a trade order value of Rs.5 lakh and above.

5.4 Secondary Markets

(i) In order to ensure faster and hassle-free refunds, it was decided to extend the facility of electronic clearing services to refunds arising out of public issues, initially at 15 centers where clearing houses are managed by the Reserve Bank of India (RBI).

(ii) In order to streamline the settlement system consistent with IOSCO CPSS Task Force recommendations, transactions executed on the stock exchanges would be necessarily settled through the clearing corporation/ clearing house of the stock exchanges.

(iii) A Committee was set up under the Chairmanship of Shri G. Anantharaman, Whole Time Member, SEBI to "Review and Examine the Future of the Regional Stock Exchanges (RSEs): Post-Demutualization". The Committee has deliberated and advised on the future role of RSEs, the manner of dealing with assets in the event of withdrawal of recognition and the process of divestment of their shareholding. The recommendations of the Committee are under examination by SEBI.

(iv) Demutualization (C and D) of stock exchanges, SEBI approved and notified C and D schemes of 19 stock exchanges during 2005-06. The NSE and OTCEI have been exempted from submitting C and D schemes as they were already notified as corporatised and demutualised stock exchanges vide notifications dated March 23, 2005 and September 15, 2005, respectively.

(v) The cumulative debt investment limit for FII Investment in debt securities for 2006-07 has been revised upward by the Government within the overall limit of External Commercial Borrowings (ECBs). While such limit for Government securities (G-Sec), including Treasury Bills, was raised from US$ 1.75 billion to US$ 2.0 billion, the same for the corporate debt was increased from US$ 0.5 billion to US$ 1.5 billion.

(vi) In order to simplify the existing framework, the SEBI (Delisting of Securities) Guidelines, 2003 were amended making it possible for stock exchanges to delist the shares of companies non-compliant with the Listing Agreement.

(vii) Foreign Investment upto 49 per cent has been allowed in infrastructure companies in the securities markets, viz. stock exchanges, depositories and clearing corporations, with separate Foreign Direct Investment (FDI) cap of 26 per cent and Foreign Institutional Investment (FII) cap of 23 per cent;

5.4.1 Mutual Funds

(i) The SEBI (Mutual Funds) Regulations, 1996 were amended and a notification was issued on January12, 2006 permitting mutual funds to introduce Gold Exchange Traded Funds (GETFs) in India subject to certain investment restrictions.

(ii) According to the SEBI Guidelines dated December 12, 2003, every mutual fund scheme should have at least 20 investors and holding of a single investor should not be more than 25 per cent of the corpus. SEBI clarified that this stipulation is applicable at the portfolio level. Moreover, if there is a breach of 25 per cent limit by an investor over the quarter, a rebalancing period of one month would be allowed.

(iii) Mutual Funds were permitted to invest in ADRs, GDRs and foreign securities. In case, disclosures to this effect were not made in the offer document, all mutual funds were advised to send a written communication to the investors about the proposed investment.

(iv) The ceiling on aggregate investment by mutual funds in overseas instruments has been raised from $ 1 billion to $ 2 billion and the requirement of 10 per cent reciprocal share holding has been dispensed with.

(v) A limited number of qualified Indian mutual funds have been allowed to invest, cumulatively up to $ 1 billion, in overseas exchange traded funds, vide a SEBI circular of August 2, 2006.

SM Section

A Brief para about the functions/working of organisation and set up of your division including its various advisory boards and concils in a brief and concise form.

The principal subjects dealt with in the Securities Markets Section are the following:

- Policy matters relating to the securities markets, related intermediaries and participants;
- Policy matters relating to the regulation and development of the securities markets and investor protection, including Debt Market

The Acts/Rules being administered by the Section are:-

- Securities and Exchange Board of India Act, 1992 and rules made thereunder;
- Securities Contracts (Regulation) Act, 1956 and rules made thereunder;
- Depositories Act, 1996 and Rules made thereunder;

The Securities markets section has been entrusted primarily with the responsibility of assisting the Government in framing suitable policies for the development of the stock market in consultation, inter-alia, with SEBI, RBI and other agencies.

Highlights of the Performance/Achievements Upto Last Year

(i) **Mutual Funds allowed to trade in derivatives:** Mutual funds were permitted to participate in the derivatives market at par with Foreign Institutional Investors (FII). The participation by the domestic Mutual Funds which is gradually increasing will seek to balance the trading by FIIs.

(ii) **IDR Guidelines:** In order to enable overseas companies to raise capital from Indian markets, SEBI has issued Indian Depository Receipt (IDR) Guidelines specifying the disclosure requirements and model listing agreement.

(iii) **Gold Exchange Traded Funds (EFTs) :** Mutual Funds have been allowed, vide notification dated 12th January, 2006, to float Gold Exchange Traded Fund schemes which have been are permitted to invest primarily in Gold and Gold related instruments, which have been defined as such instruments having gold as underlying, as are specified by SEBI from time to time.

(iv) **Margin Trading :** SEBI, through its circulars of March 2004 and March, 2005, allowed the member-brokers of stock exchanges to provide margin trading facility to their clients, in the cash segment, subject to certain conditions. Clearing corporation/House were allowed to borrow and lend securities for the limited purpose of handling settlement shortages.

(v) **Units of Mutual Funds:** Securities Laws (Amendment) Ordinance promulgated on 12th October 2004, inter-alia expanded the definition of "securities" to include units or any other such instrument issued to the investors under any mutual fund scheme.

(vi) **Review of dematerialization charges :** SEBI rationalized the tariff structure in the depository system relating to account opening charges, custody charges and transaction charges towards the credit of securities, with effect from February 1, 2005. Certain charges paid by investors were removed which include charges towards opening of a Beneficiary Owner(BO) account, credit of securities into BO account and custody charge for BO account opened on or after February 1, 2005. With effect from April 1, 2005, the custody charges are not levied on any investor.

(vii) **Continuous listing requirements amended to ensure minimum amount of floating stock:** In order to ensure availability of floating stocks on a continuous basis and maintain uniformity for the purpose of continuous listing, SEBI (Disclosure and Investor Protection) Guidelines, 2000 were amended to prescribe minimum public shareholding of 25 per cent in case of all listed companies barring a few exceptions.

(viii) **Corporate Governance:** To improve the standards of corporate governance, SEBI amended Clause 49 of the Listing Agreement. The major changes in the new Clause 49 include amendments/additions to provisions relating to definition of independent directors, strengthening the responsibilities of audit of committees, improving quality of financial disclosures, including those pertaining to related party transactions and proceeds from public/rights/preferential issues, requiring Boards to adopt formal code of conduct, requiring CEO/CFO certification of finance statements and improving disclosures to shareholders. Certain non-mandatory clauses like whistle blower policy and restriction of the term of independent directors have also been included.

The revised clause 49 of the Listing Agreement on Corporate Governance came into effect on 1st January 2006. The first compliance reports which were due for quarter ended March 31, 2006 have since been received from the Stock Exchanges. Of the number of companies to whom corporate governance is applicable, 93 per cent listed on NSE and 62 per cent on BSE has submitted their reports for the quarter ended June 30, 2006 and 84 per cent on NSE and 68 per cent on BSE have complied with most of the provisions of Clause 49.

(ix) Introduction of Optional Grading of IPO: With a view to assisting the investors, particularly the retaii investors, SEBI has given in-principle approval for grading of IPOs by the rating agencies at the option of the issues. SEBI will not certify the assessment made by the rating agencies.

Amendments to the Securities Contracts (Regulation) Act, 1956 and Depositories Act, 1996: Securities Laws (Amendment) Ordinance promulgated on 12th October 2004, inter-alia, conferred powers upon the Securities and Exchange Board of India to issue directions to stock exchanges, depositories and the companies whose securities are listed or proposed to be listed and enhanced the penalties specified under the Securities Contracts (Regulation) Act, 1956 and Depositories Act, 1996

Information about the Performance/Achievements During The Year Under Review

(X) Implementation of Integrated Market Surveillance System

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

The IMSS was operationalized on 1st January, 2007.

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

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

The highlights of the amendments are:

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

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

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

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

Securities Contracts (Regulation) Amendment Bill, 2006:

During the Budget Session of Parliament for the year 2005-2006, it was proposed to amend the Securities Contracts (Regulation) Act, 1956 so as to provide a legal framework for trading of securitized debt including mortgage backed debt. A Bill viz. the Securities Contracts (Regulation) Amendment Bill, 2005, was introduced in the Lok Sabha on the 16th December, 2005. The provisions of the said Bill contained proposals for amendment of the Securities Contracts (Regulation) Act, 1956 with a view to promote corporate bond market. The Securities Contracts (Regulation) Amendment Bill, 2005 was referred to the Standing Committee on Finance on the 23rd December, 2005 for examination and report. The Committee presented the report to the Lok Sabha on the 22nd May, 2006.

The Standing Committee in its report recognized the need for listing and trading of securitized certificates or instruments on the Stock Exchange and expressed their agreement with the broad objectives of the proposals contained in the Securities Contracts (Regulation) Amendment, Bill 2005. The Government examined the recommendations and decided to accept and act upon them. Since the approach recommended by the Standing Committee and agreed to by the Government are different from the provisions in the Securities Contracts (Regulation) Amendment Bill, 2005, it was proposed to withdraw the said Bill and to move a revised Securities Contracts (Regulation) Amendment Bill, 2006 to amend the Securities Contracts (Regulation) Act, 1956 so as to provide, inter alia, to -

(i) include securitization certificates or instruments under the definition of "securities" and to insert for the said purpose, a new sub-clause (ie) in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956;

(ii) provide for disclosure based regulation for issue of the securitized certificates or instruments and the procedure therefore and to insert for the said purpose a new section 17A in the Securities Contracts (Regulation) Act, 1956.

The Bill of 2005 was withdrawn and the Bill of 2006 was introduced in the Lok Sabha on the 15th of December, 2006 and is likely to be taken up for consideration and passing in the Budget Session of the Parliament.

(xii) Action Taken To Implement The Flagship Ncmp Programmes And Other Important Policy Initiatives Announces Through Finance Ministers Budget Speech 2006-07.

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

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

The following recommendations of the Expert Group have been accepted:

(i) There is need for centralised investor education effort with adequate funding.

(ii) Courses on different areas in financial market may be developed in consultation with IIMs, ISB etc.

(iii) The implications of group insurance policy for compensation to investors need to be evaluated further in the light of international practice before a decision is taken.

(iv) There is a need to lay a set of comprehensive regulations to govern the profession of "Financial Planners /Investment Advisers" to enhance the confidence of the investors.

On (ii) above: Government authorized, through budget 2005-06, Securities and Exchange Board of India (SEBI) to set up a National Institute of Securities Markets (NISM) for reaching and training intermediaries in the securities markets and promoting research. NISM has been set up with the following objectives:

(i) To build knowledge base by supporting research studies and surveys in the area of securities industry.

(ii) To create and maintain a data/knowledge depository pertinent to securities markets of Asia as well as other developing and developed markets.

(iii) To facilitate publication and dissemination of data/information/knowledge about securities markets of the world for strategic decision-making by security industry professionals.

(iv) To cultivate an organized cadre of professionals who would be equipped to facilitate learning and to conduct research in securities industry.

(v) To offer/facilitate long term educational courses (including Ph.D) for pre-profession target group.

(vi) To organize continuing, education programmes/seminars/conferences for security market professionals, investors, issuers, students, media fraternity and regulatory staff.

(vii) To supervise/guide/undertake/facilitate quality improvement for security market participants through education and certification.

(viii) To collaborate with universities, school boards, media and security industry's interest groups to take investment education to the grass roots.

(ix) To play a catalytic role in creating an all pervasive security market educational mosaic in India as well as developing nations.

NISM has acquired a land of about 70 acres in Patalganga near Mumbai for its campus. It is in the process of acquiring Indian Institute of Capital Markets. It is expected to be operational soon. In view of this, the recommendation at (ii) has been implemented.

On (iv) above, as recommended by the Committee and directed by the Hon'ble Prime Minister, Securities and Exchange Board of India has been advised to notify the Regulations for Investment Advisers by 31st March, 2007.

On the other two recommendations, steps are being taken to implement them in consultation with the Securities and Exchange Board of India, stock exchanges and depositories etc.

Committee on Liberalisation of FII Investment

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

The recommendations of Lahiri Committee and decision taken on each of them is given in table 3.4.

5.6 Pension Reforms

The New Pension System (NPS) was introduced for newly recruited Central Government employees (except the Armed Forces) with effect from 1st January 2004.

The Pension Fund Regulatory and Development Authority Bill, 2005 is currently before Parliament and amendments to the Bill, based on the recommendations of the Standing Committee on Finance, are under Government's consideration.

In the interim, the Pension Fund Regulatory and Development Authority will be appointing a central record keeping and accounting agency and Government is finalizing an arrangement for investment and management of accumulations under the NPS.

Table 3.4: Lahiri Committee recommendations and decisions thereon

	Recommendations	Decisions of the Government
1	Encouraging FII flows may be attempted by having a composite ceiling of FII and FDI at a sufficiently high level.	The policy on FDI and FII is reviewed on ongoing basis. Recently, FDI in several sectors has been rationalised and liberalised, including telecom, greenfield airports, construction/ development projects.
2	FII flows could be encouraged by greater volume of issuance of securities including PSU disinvestment.	With the deepening of the domestic capital markets, there is a marked increase in the volume of fresh equity issuances during 2005-06 and the trend is expected to continue in the current year 2006-07. FIIs, being eligible, are also likely to participate in such public offers.
3	Participation of domestic pension fund in the equity market would augment the diversity of views on the market.	The New Pension System envisages a menu of investment choices including equity investments to subscribers based on the investment regulations by the Pension Fund Regulatory and Development Authority (PFRDA). The PFRDA Bill, 2005 is yet to be enacted. In so far as pension plans of the insurance companies are concerned, equity investment is being done under those plans.
4	Current dispensation for PNs may continue. SEBI should have full powers to obtain information regarding the final beneficiary or any holder in case of any investigation or surveillance action. FIIs may be obliged to provide the information to SEBI.	The Tarapore Committee on Fuller Capital Account Convertibility appointed by the RBI has submitted its report. In this report, on the issue of PNs, the majority view is that fresh issue of PNs should be disallowed and existing PNs be phased out in one year. Two of the six members of the Committee, have given a dissenting opinion on this recommendation. All these views are now in the public domain. GOI will take a view on this in due course after considering all suggestions received in this behalf. In the meanwhile, status quo on policy on PNs will continue.
5	The policy on hedge funds may be put on hold till the regulatory developments in US and elsewhere on hedge funds are available.	Global experience shall be studied before policy on hedge funds is finalised.
6	The individuals' investment limit of 10 per cent may be applied to one FII and all sub-accounts coming under that FII if the common beneficial ownership of both is the same. This requirement may be phased in over a five year period by 2010.	SEBI follows the common beneficial ownership criteria to determine individual investment limit in case of FII and its sub-accounts. The current practice is in line with the recommendation.
7	Only broad based entities should be allowed to be registered as FIIs. Other entities which do not have reputational risk and unregulated entities, such as, high networth individuals may not be allowed to be registered as FII. Such existing entities may be given sufficient time to wind up the position.	Under the SEBI (Foreign Institutional Investors) Regulations, 1995, SEBI grants a certificate after taking into account all matters which are relevant, including whether the applicant is a "fit and proper person."
8	Quantitative restriction for debt flows for FIIs may be progressively amended to a cap on annual flow as against the present ceiling on aggregate portfolio value.	The quantitative ceiling, has since been enhanced to US$ two billion for Government securities and US$ one and half billion for corporate debt, pursuant to the Budget announcement of 2006-07.
9	There should be a negative list of tax havens whereby entities registered in these jurisdictions are prevented from attaining FII status.	Government has advised RBI and SEBI regarding preparing a negative list of tax havens.
	Department of Economic Affairs should initiate a research program on "Capital Flows on India's Financial Sector: Learning from Theory, International Experience and Indian Evidence".	The Department of Economic Affairs, Ministry of Finance would initiate the research program.

(i) Functions of the Pension Reforms Section

The Pension Reforms Section of the ECB & PR Division is responsible for the following:

- Initiating and coordinating pension reforms;
- Formulating policy in regard to investment of fund moneys by non-government provident, superannuation and gratuity funds;
- Policy matters related to the Special Deposit Scheme.
- Matters related to the Employees' Provident Fund Organisation (EPFO) and agenda items for meetings of the Central Board of Trustees of EPFO, of which JS (CM) is a member.

Information about the performance/ achievements upto last year

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

- It is based on defined contribution. New entrants to Central Government service contribute 10 per cent of their salary and dearness allowance (DA), which is matched by the Central Government.
- Once the NPS architecture is fully in place, employees will have the option of a voluntary tier-II withdrawable account in the absence of the facility of General Provident Fund (GPF). Government will make no contribution to this account.
- Employees will normally exit the system at or after the age of 60 years. At the time of exit, it is mandatory for them to invest 40 per cent of the pension wealth to purchase an annuity to provide for life time pension of the employee and his dependent parents and spouse. Remaining 60 per cent of pension wealth will be paid to the employee in lump sum at the time of exit.
- The new system will have a central recordkeeping and accounting infrastructure and several fund managers to offer investment options with varying proportions of investment in fixed income instruments and equity.

An interim PFRDA was constituted through a Government resolution dated 10th October 2003 as a precursor to a statutory regulator and became operational from January 1st 2004. Till the architecture is fully in place, the Central Pension Accounting Office (CPAO) under the Controller General of Accounts is acting as the interim Central Recordkeeping Agency (CRA). Contributions are currently being credited into the public account earning a return equal to the GPF rate.

The Pension Fund Regulatory and Development Authority Bill, 2005 was introduced in Parliament on 21st March 2005 and referred to the Standing Committee on Finance. Amendments to Bill based on the recommendations of the Standing Committee on Finance, which examined the Bill are under the Government's consideration.

(ii) Information about the performance/ achievements during the year under review

The New Pension System (NPS) has been in place for over three years. Over 1 lakh employees of Central Government are under this system. 19 State Governments have also notified defined contribution pension systems based on the NPS.

The Pension Fund Regulatory and Development Authority Bill, 2005 is currently before Parliament and amendments to the Bill, based on the recommendations of the Standing Committee on Finance, are under Government's consideration.

In the interim, the Pension Fund Regulatory and Development Authority will be appointing a centralized entity to carry out the functions of record keeping and accounting. The services of this entity can be availed of by State Governments also. Government is finalizing an arrangement for investment and management of accumulations under the NPS.

A conference of Chief Ministers and State Finance Ministers was held on 22nd January 2007 on the subject of pension reforms, including the Bill and other related issues. The conference was presided over by the Prime Minister.

Action is being taken on the issues raised at the conference, including wherever necessary, amendments to the PFRDA Bill. Further, consultation with the political parties would continue to evolve a consensus in Parliament before the Bill is taken up for consideration and passing.

(iii) External Commercial Borrowings

The Government in consultation with Reserve Bank of India periodically reviews ECB policy in order to enable Indian corporates to have greater access to international capital market while keeping the prudent debt management objective in view. With a view to replace certain temporary measure relating to ECB announced on November, 14, 2003 with more transparent and simplified policy a review was undertaken in January, 2004, in March, 2005, in November, 2005 and again in May, 2006. The revised policy was notified by RBI under FEMA on July 01, 2005 followed by subsequent Circular on August 01, 2005 and July 01, 2006. The review was based on current macro-economic situation, challenges faced in external sector management and the experience gained so far in administering ECB policy. The highlight of the review was increasing the access of the corporate sector by permitting ECBs up to US$ 500 million on the automatic route. The all-in-cost ceiling was prescribed with relation to the minimum average maturity period. The same liberation made for ECB was extended to the Foreign Currency Convertible Bonds (FCCBs) with regard to spreads, procedures etc.

As announced in Budget 2006-07, the limit on FII investment in Government securities was increased from US$ 1.75 billion to US$ 2 billion and the limit on FII investment in corporate debt from US$ 0.5 billion to US$ 1.5 billion. Now in pursuance of Committee on Fuller Capital Account Convertibility (CFCAC) recommendations and in terms of mid-term review of the annual policy, RBI announced the enhancement of existing FII limit of US$ 2 billion in phased manner to US$ 2.6 billion by December 31, 2006 and further to US$ 3.2 billion by March 31, 2007 keeping the extant limit of US$ 1.5 billion for investment in Corporate Debt unchanged. Further, taking this into account and likely demand for ECBs particularly for infrastructure projects, overall approval ceiling for 2006-07 has been enhanced from US$ 18 billion to US$ 22 billion as recommended by RBI.

(iv) Functions and working of the Organization

ECB Section in the Capital Markets Division deals with the followings:

- Periodical review and formulation of ECB Policy & procedures.
- Policy regarding FCCBs, ADR / GDR.
- FIIs Portfolio Investment policy.
- Coordination with International Credit Rating Agencies on issues relating to sovereign credit rating of India.
- To provide input for future borrowings decisions including annual cap for the short-term balance of payments (STBOP) review exercise.
- Policy issues relating to risk and liability management and derivative products for interest rate / foreign currency and commodity price risk management.
- Sectoral Charge of Ministry / Department of Consumer Affairs, Food & Public Distribution.

ADR / GDR, FCCBs

A scheme was initiated during 1992/1993 to allow the Indian Corporate Sector to have access to the Global Capital Markets through issue of Foreign Currency Convertible Bonds (FCCBs)/Equity Shares under the Global depository Mechanism.

Liberalization in the guidelines has been announced in a phased manner. The ADR/GDR policy was last reviewed in August, 2005 to bring the ADR/GDR guidelines in alignment with SEBI's guidelines on domestic capital issues. Accordingly, Government vide Press Note dated August 31, 2005, amended the pricing guidelines for Indian listed companies issuing FCCB/ADR/GDR. In respect of unlisted companies issuing FCCB/ADR/GDRs, they shall be required to prior or simultaneous listing in domestic stock exchange(s). It was also clarified that the Unlisted companies, which had already issued GDRs/FCCBs in the international market, would require to list in the domestic market on making profit beginning financial year 2005-06 or within three years of such issue of GDRs/FCCBs, whichever is earlier.

In order to remove hardship to Indian companies that have taken verifiable "effective steps," before 31st August, 2005, Government vide Press Note dated September 14, 2005 decided that the companies issuing Global Depositary Receipts/Foreign Currency Convertible Bonds that have taken verifiable "effective steps," before 31st August, 2005 would be exempt from the requirement of prior or simultaneous listing in case of unlisted companies and of the revised pricing guidelines in case of listed companies provided these companies complete their issues latest by 31st December, 2005.

In order to rationalize the ADR/GDR guidelines further, Government vide Press Note dated 17.11.2005 decided that the companies going in for an offering in the domestic market and a simultaneous or immediate follow on offering (within 30 days of domestic issue) through ADR/GDR issues wherein GDRs/ADRs are priced at or above the domestic price, would be exempt from the requirement of the revised pricing guidelines. Companies going for such simultaneous or immediate follow on offering in the ADR/GDR market will have to take SEBI's approval for such issue, which will specify the percentage to be offered in the domestic and ADR/GDR markets. It is also clarified that unlisted companies, which have already issued Global Depositary Receipts/Foreign Currency Convertible Bonds in the international market, and are to list in the domestic market, would be required to do so by 31st March, 2006.

(v) Recent initiatives

Government, vide Press Note of 31st March, 2006, permitted Unlisted companies, which had accessed FCCBs, ADR / GDRs in terms of guidelines of 22nd May 1998 and were not making profit, to comply with listing condition on the domestic stock exchanges within three years of having started making profit. However, no fresh issues of FCCBs, ADR / GDRs by such companies will be permitted without listing first in the domestic exchanges.

Vide Press Note dated 28th June, 2006, Government permitted Unlisted companies to sponsor an issue of ADRs / GDRs.Accordingly, Unlisted companies which had issued FCCBs, ADRs / GDRs prior to 31st August, 2005 and are not making profit are permitted to sponsor issues against existing shares held by its shareholders and will be permitted to comply with listing condition on the domestic stock exchanges within three years of having started making profit.

(vi) India Ratings

- Presently India is rated by five international credit rating agencies namely, Standard and Poor's (S&P), Moody's Investor Services, FITCH, the Japanese Credit Rating Agency (JCRA) and the Rating and Investment Information Inc., Tokyo (R&I).
- The current ratings by these agencies are summarized in Table 3.5 on next page.

Portfolio Investments from Foreign Institutional Investors

A scheme for attracting portfolio from Foreign Institutional Investors (FIIs) has been operational since September, 1992.

Table 3.5: International credit ratings		
Agency	**Earlier Ratings & Outlook**	**New Ratings & Outlook**
Moody's	Baa3 Outlook: Stable (Jan. 2004: investment grade after 6 years)	Baa3 Outlook: Stable (affirmed 04th May, 2006) (investment grade)
S & P	BB+Outlook: Positive (19th April,. 2006)	BBB-Outlook: Stable (30th January, 2007)(investment grade)
FITCH	Long-term foreign currency debt**: BB+** (highest grade in non-investment category) Outlook: **Stable** (Re-affirmed on 19th May, 2005)	Long-term foreign currency debt**:** **BBB-** Outlook: **Stable** (investment grade)(01st August, 2006)
Japan Credit Rating Agency Ltd. (JCRA)	**BBB** Outlook: **Stable** (August, 2005)	**BBB**Outlook: **Positive** (Affirmed - 04th September, 2006) (investment grade)
Rating and Investment Information Inc, Japan (R&I)	Foreign currency issuer rating: **BBB**Outlook: **Stable** (June, 2004)	**BBB**Outlook: **Positive** (Affirmed - 25th April, 2006) (investment grade)
	Foreign currency short-term credit rating: **a-2** (June, 2004)	**a-2** (Affirmed - 25th April, 2006) (investment grade)

Under this scheme, FIIs including institutions such as Pension Funds, Mutual Funds, Investment Trusts, Asset Management Companies, Nominee Companies and Incorporated/ Institutional Portfolio Managers or their power of attorney holders are allowed to invest in all the securities traded on the primary and secondary markets. Such securities would include shares, debentures and warrants issued by companies which are listed/to be listed on the Stock Exchanges in India and the schemes floated by domestic mutual funds. FIIs are permitted to invest in Government securities including Treasury Bills. FIIs who register themselves as debt Funds with SEBI are permitted to make 100 per cent of their investments in Debt securities of Indian companies. Portfolio investments by FIIs are subject to investment ceilings as indicated below:

i) Individual FII/Sub-account**:**
10 per cent of the issued and paid-up capital in a company.

ii) Aggregate by all FIIs:
24 per cent of the issued and paid-up capital in a company which could be increased up to the sectoral cap/statutory ceiling, as applicable, by the Indian company concerned by passing a resolution by its Board of Directors followed by passing of a special resolution to that effect by its General Body.

(vii) Committee on Liberalization of FII Investment

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

5. Infrastructure Division

6.1 Currency & Coinage

The C & C Division is responsible for policy on currency notes, coins, stamp papers and other security documents including production planning in consultation with RBI, introduction of new features in currency notes etc. to abort counterfeiting, issue of commemorative coins on special occasions and administration of the Security Printing & Minting Corporation of India Limited which is responsible for production of currency notes, coins and other security documents.

New design of Coins

The new series of coins in the denomination of Re.1 & Rs.2 in ferritic stainless steel have been brought in circulation and a notification has also been issued for minting of a coin of Rs.5 in ferritic stainless steel. All these coins carry the theme “Unity in Diversity”.

Commemorative coins

In 2006, Government has issued commemorative coins on Mahatma Basaveshwara, State Bank of India bicentennial year, Oil and Natural Gas Commission (ONGC) and Sree Narayana Guru. It has also been decided to issue commemorative coin on 75th Martyrdom/Centenary of Sahid Bhagat Singh, 150th Anniversary of War of Independence, Golden Jublee Celebration of Khadi & Village Industries Commission, 150th Anniversary of Lok Manya Bal Gangadhar Tilak and Platinum Jubilee celebration of IAF.

Mints & Presses

A new Corporation viz. the Security Printing & Minting Corporation of India Limited (SPMCIL) has been set up for management of all the nine Mints/Presses/Mill which were earlier being managed by the Ministry of Finance. The Company was registered on 13.1.06 with its headquarters at New Delhi. Organisation is headed by Chairman and Managing Director. There are three functional directors proposed to be on the board in addition to Government nominee Directors. The company has four Presses, four Mints and one Paper Mill. Client of two Currency Presses is RBI for currency notes. For another two Security Presses, clients are State Governments for Non Judicial Stamp Papers and allied stamps and Postal Department for postal stationery, stamps etc. Security Presses also produce various security items like cheques for various clients and passports, visa stickers and other travel documents for Ministry of External Affairs. For Mints, major work relates to minting of coins for RBI, though small payments are received from individuals for commemorative coins etc.

After corporatisation, SPMCIL has compiled its accounts on commercial pattern for the period starting from 13-1-2006 to 31-3-06. These accounts have been duly audited and approved by AGM also. As on 31-3-06, SPMCIL has an asset base of Rs.4,002.30 crore and profit after tax for the above period of 50 days at Rs.32.32 crore.

The Corporation envisages modernisation of security paper mill, capacity enhancement of security paper production, modernisation of currency printing unit and automation of various activities being carried out in traditional manner, for which Government will provide financial assistance, if required.

SPMCIL have set up a cell to deal with Right to Information (RTI) Act with following Official:

1. Appellate Authority – Sh. Ashwini Kumar, OSD(T)
2. Public Information Officer – Sh. Ajay S. Singh, Sr. DGM (F)

6.2 Infrastructure

Functions

- Providing inputs on cabinet notes and other policy related issues concerning roads, ports, shipping, inland water transport, railways and telecommunication sector referred to the Department of Economic Affairs (DEA) by the concerned Administrative Ministries.
- Analysing the investment proposals in these infrastructure sectors requiring the approval of EFC/ PIB/CCEA for their viability and justification.
- Promoting investments in infrastructure sectors by encouraging public private partnerships.
- Servicing High Level Committees, GOMs, etc. constituted to deal with policy issues in these sectors and providing inputs for formulation of DEA’s view on such issues.
- Preparing briefs/talking points etc for the use of Finance Minister/Finance Secretary.
- Handling VIP references and Parliament Questions on these sectors.
- Providing inputs on these sectors to other Divisions/ Departments/Ministries.
- Participating in meetings/discussions held by the Ministries/Planning Commission/ Associations in these sectors with the approval of the Head of the Division.

Performance/ achievement during the year under review

Infrastructure Division provided substantial policy inputs on the following issues discussed in the Cabinet or other high level Committees.

- Approval of various phases of NHDP, upgradation of various stretches under them and Special Accelerated Road Development programme for North-East.
- Model Concession Agreement on BOT(Toll) and Annuity.
- State Support Agreements
- Model Concession Agreement for Operation, Maintenance and Transfer Contracts.
- Restructuring of NHAI
- Reducing dwell time in Ports
- Formulation of financing plan of Ports

- Model Concession Agreement for Public-Private Partnership in Port
- Formation of Indian Maritime University
- Implementation of Sethusamudram Ship Channel Project
- Financial restructuring of Hindustan Shipyard Ltd.
- Signing of Air Service Agreements with Switzerland, Finland, Tanzania and Australia.
- Merger of Air India and Indian Airlines.
- Rural Electrification Policy
- Amendment to Electricity Act 2003 on theft of Electricity.
- Development of Large size power projects
- Regional System strengthening Schemes
- Model Concession Agreement for introducing Competition in the Operation of Container Trains
- Formation of a SPV for execution of the proposed Dedicated Freight Corridor
- Extension of Delhi Metro Poject from Dwarka, Sector-9 and high speed express link from New Delhi Railway Station to IGI Airport.
- Scheme for setting up terminal markets
- Formation of a JV of CWC with private participation for railside warehousing.

Besides, Infrastructure Division was instrumental behind the setting up of a Committee on Infrastructure Financing under the Chairmanship of Mr. Deepak Parekh. This division also facilitated the process of setting up of the IDFC-Citigroup led 'Infrastructure Finance Initiative' which will have minor equity participation by IIFCL.

6.3 Public Private Partnership (PPP) Cell

The PPP Cell is headed by Joint Secretary (ADB & Infra) who is assisted by Director (PPP) Under Secretary (PPP) and Section Officer (PPP).

A major scheme to promote public private partnership (PPP) in various infrastructure sectors such as roads, seaports, airports, railways, convention centers etc. with viability gap support from the Government of India was announced in the budget 2005-06 the Viability Gap Funding (VGF), scheme. Procedure approval and institutional mechanism for approvals of proposals seeking funding under the scheme have been notified. An appraisal mechanism on the lines of PIB for the appraisal of PPP projects in the Central Sector had also been notified by setting up of PPP Appraisal Committee.

Under the scheme PPP Appraisal Committee (PPPAC) has been appraising PPP projects received in Department of Economic Affairs. A PPP Cell also stands set up within Department of Economic Affairs to administer the PPPAC and VGF Scheme.

PPP Cell, Department of Economic Affairs is also administering a capacity building program for PPPs in State Govt. and Central line Ministries. Assistance for this purpose has been received from ADB and World Bank.

A handbook for PPPs has been developed with assistance from USAID, it is now proposed to further develop it as an online manual for PPPs.

6.4 Asian Development Bank

Asian Development Bank (ADB), an international Partnership of 66 member countries was established in 1966 with its headquarters at Manila, Philippines. India is a founder-member. The Bank is engaged in promoting economic and social progress of its developing member countries in the Asia and the Pacific region. Its principal functions are as follows:

(i) to make loans and equity investments for the economic and social advancement of its developing member countries;

(ii) to provide technical assistance for the preparation and execution of development projects and programs and advisory services;

(iii) to respond to the requests for assistance in coordinating development policies and plans in developing member countries; and

(iv) respond to the requests for assistance coordinating development policies and plans of developing member countries.

The ADB follows the calendar year for all its programs and projects. Therefore, the portfolio review of the calendar year 2006 would bring out the achievements and the challenges lying ahead. The portfolio of ADB could be reviewed in terms of commitments, contract awards, disbursement of funds and disbursement ratio for the calendar year 2006. For the period 2006-2008 a target of US$ 7 billion was fixed for approving loan agreements and a disbursement target of US$ 3 billion. Thus on simple average basis, the commitments and disbursements for the year 2006 would need to be of the order of US$ 2.33 billion and US$ 1 billion respectively. The position in brief of the commitments and disbursements in the last five years is as under :

Calendar Year	Commitments US$ million	Disbursements US$ million
2001	1,500.00	270.40
2002	1,163.00	576.50
2003	1,430.00	658.20
2004	1,200.00	401.60
2005	1,217.30	640.50

The Bank's lending so far has been focused on the Energy, Transport and Communications, Finance, Industry, Irrigation, Rural Cooperative Credit and Urban Infrastructure sectors. As of December 31, 2006, the Bank had cumulatively approved 92 Public Sector loans to India amounting to US$ 17.528 billion. With 48 loans closed, the active portfolio comprises 35 loans. Cumulative disbursements till 31.12.2006 were about US$ 8.62 billion. A statement indicating the on-going projects financed/being financed by Asian Development Bank is annexed.

During calendar year 2006, ADB has approved loans of US$ 2.2 billion for 5 projects to India, namely:

Name of the Project	Amount US$ million
1. Uttaranchal Power Sector Investment Program	300.00
2. North Karnataka Urban Sector Investment Program	270.00
3. Kolkata Environmental Improvement Project (Supplementary Loan)	80.00
4. Rural Cooperative Credit Restructuring and Development Program	1,000.00
5. Uttaranchal State Road Investment Program	550.00
Total	**2,200.00**

A loan of US$ 1 billion for the Rural Cooperative Credit Restructuring and Development Program was approved this year which is the largest program loan approved by ADB for any borrower. This was the result of the concerted efforts made by the ADB Division, the meetings held by the Finance Secretary with the President and the Executive Directors of the ADB and the timely intervention of Hon'ble Finance Minister through letters to the President, ADB. Thus, a quantum jump of 80.72 per cent in the commitment of ADB from US$ 1.22 billion in 2005 to US$ 2.2 billion in the year 2006 was achieved.

The Country Strategy Program Update 2006-08 had depicted loans for the North Eastern Urban Development Project (US$ 300 million), North East State Roads Project (US$ 300 million) and J&K Urban Development Project (US$ 300 million). The North Eastern Region Projects could not mature as ADB loans were to be taken on back-to-back basis with effect from 1.4.2005 and the concerned State Governments were reluctant to do so. By the time it was decided that loans taken through Ministry of DONER would be on back-to-back basis, a large part of the year had elapsed and the Ministry of DONER was able to initiate processing for the approval of EFC only after the concerned State Governments had given their commitment for these projects thereafter. For loans to Special categories States (old pattern of 90:10 financing pattern) the decision was taken in the NDC meeting held in December, 2006 and the instructions were issued by Department of Expenditure on 11th January, 2007.

One factor common to all projects is that ADB takes a long time for completing loan appraisal, fact finding and project preparatory TAs due to which most loans get pushed to the latter half of the year leaving the Central/State Governments and executing agencies with little time. As the issue of financing of externally aided projects for North East and Special Category States has been sorted out, all the three loans are expected to be approved in calendar year 2007.

An important indicator of the performance of the portfolio is the award of contracts. During the year 2006, the ADB had fixed a target of US$ 1730.10 million for awards of contracts. The actual achievement at the end of the year is of the order of US$ 1710.30 million which is 98.9 per cent of the target. On the other hand, against a target of US$ 1330.10 million contracts for an amount of US$ 830.1 million were awarded in the year 2005. The quantum of contracts awarded have more than doubled during the year 2006 as compared to the previous year. A key factor responsible for this has been the bi-monthly Tripartite Review meetings chaired by Joint Secretary, many of which have been attended by Director General, South Asia Regional Department (SARD), ADB as well. Regular review and monitoring of the portfolio has encouraged both the ADB and the Executing Agencies to speed up project implementation. The result of this in terms of disbursement of funds is expected to be evident during the year 2007.

The other aspect of the performance of ADB portfolio is the disbursement of funds under various projects. During the year 2006, the total disbursement amount was US$ 720.20 million. While disbursement during the year 2005 was to the tune of US$ 640.50 million and the highest annual disbursement achieved since 1986-2005 was of US$ 658.20 million in calendar year 2003. The target fixed by ADB for 2006 was US$ 831.8 million and the achievement was to the extent of 85.8 per cent. A detailed project-wise review would be desirable.

Presently there are 35 ongoing ADB projects/programs. Out of these, 7 are in the Energy Sector, 11 are in the Transport sector, 10 in Urban Development, 6 in the Financial Sector and 1 in Agriculture and Natural Resource sector.

Another parameter for reviewing the portfolio is the disbursement ratio. Our performance on this account in the last five years has been as follows :

Year	Disbursement ratio (%)
2001	11.8
2002	17.9
2003	20.0
2004	12.1
2005	16.5

The disbursement ratio during the year 2006 has been of an amount of US$ 720 million against an un-disbursement balance of US$ 4,304.68 (excluding the cancelled amount of US$ 25.12 million). The total claims forwarded by CAA&A for 2006 are US$ 740 million. Then the disbursement ratio would be 17.2 per cent. Achieving a higher disbursement ratio on an expanded base would be a challenge. An expanding portfolio is an encouraging sign and thus disbursement amounts rather than disbursement ratios appears to be better benchmark of portfolio performance in such a scenario.

India has contributed US$ 3.0 million in convertible currency (upto the end of 2006) to the Technical Assistance Special Fund (TASF) of the ADB.

The Bank has extended technical assistance to India in addition to loans from its OCR window. The Bank's technical assistance support was US$ 0.6 m in 1988. Till end 2006, India has received a cumulative amount of about US$ 144.4 million. The technical assistance provided include support for institutional strengthening, effective project implementation and policy reforms as well as for project preparation.

India representation at the Bank: There are 58 Indian Professional Staff working in the Bank out of the total of 856 professional staff. Out of these, 14 are holding senior level positions in the Bank. In addition, India holds the position of Executive Director on the Board of Directors of the Bank - its Constituency comprises India, Bangladesh, Bhutan, Lao PDR, Tajikistan, Afghanistan and Turkmenistan. The Finance Minister is India's Governor on the Board of Governors of Asian Development Bank and Finance Secretary/ Secretary(Economic Affairs) is the Alternate Governor.

ADB assistance to North-Eastern States

During the year 2006, ADB has approved following Technical Assistance for North Eastern States:

	Technical Assistance	US$ million
1.	North Eastern Integrated Flood and Riverbank Erosion Management	0.85
2.	Project Implementation and Urban Management Improvement in the North Eastern Region	1.52
3.	Assam Governance and Public Resource Management Subprogram II	0.50

6.5 POL Desk

Major Functions: POL Desk has the charges of credits / assistance from OPEC Fund, Sectoral Charges of the Ministries of Petroleum and Natural Gas, Coal, Chemicals and Fertilizers. Main functions are: appraisal of Oil Economy Budget - foreign exchange budget for import of crude oil, appraisal of projects in Petroleum and Natural Gas Sector, Chemicals and Fertilizers Sector and Coal Sector; assistance to Hon. FM as Chairman of Group of Ministers on Bhopal Gas Leak Disaster, for Cabinet, CCEA and GOM meetings; Energy Coordination Committee meeting; assistance to FS, AS (EA) and JS (Infra) for meetings of Empowered Committee of Secretaries (ECS), Project Investment Board (PIB), and various committees and statutory bodies and for the meeting of the Board of Directors of Oil and Natural Gas Corporation (ONGC), and ONGC Videsh Limited (OVL).

Major Policy changes introduced during last year:

- Various Joint Venture Project of ONGC Videsh Limited (OVL) have been approved which will enable OVL to acquire overseas equity oil in confirmed and oil producing blocks abroad. Major investments proposed are in Sudan, Russia, Brazil, Iran and Vietnam. There are proposals for investments in Iraq, Myanmar, Nigeria, Cuba, Qatar, Lybya, etc.
- Under Sixth Round of New Exploration Licensing Policy (NELP-VI) global competitive bids were invited for 55 exploration blocks. After evaluation of the bids 52 blocks are being awarded, for exploration and production of petroleum and natural gas in India.
- Regulatory Board to oversee petroleum and natural gas sectors has been set up.
- Energy Coordination Committee has approved the proposal for setting up five Ultra-Mega Power Projects in various parts of India
- It is proposed to set up five Petrochemicals & Petrochemicals Investment Regions in various parts of India.

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

IT & IIC Cell

(i) Information Technology & Computerization related works

Pursuing implementation of the Information Technology Plan for DEA and MoF inter-alia convening meeting of the Empowered Committee on IT headed by AS(EA), e-Governance, implementation of Computer Security Guidelines and other IT and computerization related issues.

During the last financial year (2005-06), Network up-gradation of NIC, MoF under IT Plan was done. During the current year (2006-07), procurement of software and hardware (Desk top, Lap top, Plasma Screen, Video Conferencing Unit, etc.) under the IT Plan is being done. Separate budgetary provision is being kept for implementing the IT Plan.

Towards e-Governance activities, initiatives have been taken to provide desktop PC upto dealing hand level and connecting them to LAN, training of staff to work in LAN and handling software like newly developed and introduced File Tracker, improvement of Ministry's website by putting all necessary information, forms, etc. in the website.

(ii) Residual works of the Indian Investment Centre (IIC), New Delhi.

The Indian Investment Centre (IIC), New Delhi was wound up w.e.f. 31.7.2005 (following to the Cabinet decision) and the residual works of IIC including post retirement work (continuing matters of Pensioners and Family Pensioners) relating to IIC employees alongwith the records and accounts of IIC have been transferred to DEA.

During the last financial year (2005-06) and current financial year (2006-07), retirement benefits of all the voluntarily retired employees of IIC (payment of ex-gratia, gratuity, fixation of pension) have been settled in coordination with Cash Branch, PAO/DEA, O/o CCA and Central Pension Accounting Office (CPAO). Audit of the Books and Accounts of IIC for the period of 2005-06 by DGACR has been done.

Annex 1

Sl. No.	Loan No.	Project	Original Amount (US$ m)	Date of Approval
		Total loans to India (as on 31.12.2006) under their Public Sector Operation to India		
		Closed Loans	7,982.60	
		Loans Discontinued before effectivity	*89.30*	
		Loans signed but discontinued	*220.00*	
		Loans approved but not signed	305.70	
		ON-GOING PROJECTS		
1	1759	Housing Finance II-NHB	40.000	21.9.2000
2	1647	Rajasthan Urban Infrastructure Development Project	250.000	03.12.1998
3	1709	Karnataka Urban Develop. and Coastal Env. Project	175.000	26.10.1999
4	1764	Power Transmission Sector Project	250.000	6.10.2000
5	1761	Housing Finance II-ICICI	80.000	21.9.2000
6	1804	Gujarat Power Sector Project	200.000	13.12.2000
7	1813	Kolkata Environment Project	250.000	19.12.2000
8	1826	Gujarat Earthquake Rehabilitation and Reconstruction	500.000	26.3.2001
9	1839	Western Transport Corridor	240.000	20.9.2001
10	1869	Madhya Pradesh Power Sector Devl. Project	200.000	6.12.2001
11	1870	West Bengal Corridor Development	210.000	11.12.2001
12	1871	Private Sector Infrastructure Facility at State Level (Infrastructure Leasing & financial Services Ltd.)	100.000	11.12.2001
13	1968	State Power Sector Reforms Project (PFC)	150.000	12.12.2002
14	1944	East-West Corridor Project	320.000	26.11.2002
15	1959	MP Road Sector Development Project	150.000	5.12.2002
16	1981	Railway Sector Improvement Project	313.600	19.11.2002
17	2018	Rural Roads Sctor I Project	400.000	20.11.2003
18	2029	National Highway Corridor Sector I Project	400.000	4.12.2003
19	2027	Assam Power Sector Development Project	100.000	10.12.2003
20	2046	Urban Water Supply & Environmental Imp. In MP	200.000	12.12.2003
21	2050	Chhattisgarh State Road Development Project	180.000	15.12.2003
22	2152	Power Transmission Sector Project	400.000	21.12.2004
23	2141	Assam Goverenance & Public Resource Management Sector Development Program	125.000	16.12.2004
24	2142	Assam Goverenance & Public Resource Management Sector Development Project	25.000	16.12.2004
25	2151	Multisector Project for Infra. Rehabilitation in J&K	250.000	21.12.2004
26	2154	National Highway Corridor Sector II Project	400.000	21.12.2004
27	2166	Tsunami Emergency Assistance Sector Project	200.000	14.4.2005
28	2159	Chhattisgarh Irrigation Project	46.100	29.3.2005
29	2226	Kerala Sustainable Urban Development Project	221.100	20.12.2005
30		Rural Roads Sector II Project (LN 2248-Project I for US$ 180 m made effective)	750.000	21.12.2005
31		Uttaranchal Power Sector Development	300.000	31.3.2006
32		North Karnataka Project	270.000	6.12.2006
33	2281	Rural Cooperative Finance Sector Dev. Invest. Prog.	1,000.000	8.12.2006
34	2293	Supplementary loan to Kolkata Env. Impro. Project	80.000	14.12.2006
35		Uttaranchal State Road Sector Investment Prog.	550.000	18.12.2006
			9,325.800	
		Grand Total	**17,528.400**	

6. Fund Bank Division (Including UN Branch)

World Bank Group

India is a member of the four constituents of the World Bank Group viz., International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA) but not of its fifth institution i.e. International Centre for the Settlement of Investment Disputes (ICSID).

International Bank for Reconstruction and Development (IBRD):

The total value of assistance extended by IBRD by way of loans to India has been US$ 27,123.762 million as on 31.12.2005. During the period from 01.01.2006 to 31.12.2006, new commitment of US$ 1016.00 million were approved making it US$ 28,139.762 million in all as on 31.12.2006. The sectors for which IBRD assistance has been provided are roads & highways, energy, urban infrastructure (including water & sanitation), and the financial services sector.

International Development Association (IDA)

The total value of assistance extended by IDA by way of credits to India for which agreements were signed was US$ 28,869.83 million as on 31.12.2005. During the period from 01.01.2006 to 31.12.2006, new commitment of US$ 1,340.83 million were approved making it US$ 30,210.66 million in all as on 31.12.2006. The major sectors for which IDA assistance is provided are health, education, agriculture, poverty reduction and post disaster reconstruction projects.

MDRI

The Government of India agreed to participate in the Multilateral Debt Relief Initiative (MDRI) in August 2006 with its authorized subscription of INR 85,962,777. Government of India paid the 1st Installment of INR 28,654,259 in January 2007. MDRI provides a framework that commits to achieve the following objectives:

(a) deepening multilateral debt relief to HIPCs (Heavily Indebted Poor Countries) while safeguarding the long-

Projects approved in the current year

(in US$ million)

Project Name	Date of Approval	IBRD Comm. Amt.	IDA Comm. Amt.	Total Amt.
Punjab Rural Water Supply and Sanitation Project	14.12.2006	0.00	154.00	154.00
Punjab State Roads Project	05.12.2006	250.00	0.00	250.00
Uttranchal Rural Water Supply and Sanitation Project	05.09.2006	0.00	120.00	120.00
Second National Tuberculosis Control Project	22.08.2006	0.00	170.00	170.00
Karnataka Health Systems	22.08.2006	0.00	141.83	141.83
Reproductive & Child Health Second Phase	22.08.2006	0.00	360.00	360.00
Orissa Socio-Economic Development Loan II	01.08.2006	150.00	75.00	225.00
Karnataka Panchayats Strengthening Project	29.06.2006	0.00	120.00	120.00
National Agricultural Innovation Project	18.04.2006	0.00	200.00	200.00
Karnataka Municipal Reform Project	14.03.2006	216.00	0.00	216.00
Power System Development Project-III	19.01.2006	400.00	0.00	400.00
TOTAL		1,016.00	1,340.83	2,356.83

term financial capacity of IDA and the African Development Bank

(b) encouraging the best use of donor resources for development by allocating them to low income countries on the basis of policy performance

Debt relief to be provided under the MDRI will be in addition to existing debt relief commitments by IDA and other creditors under the Enhanced HIPC Debt Initiative.

India and the International Monetary Fund (IMF)

The International Monetary Fund (IMF) was established along with the International Bank for Reconstruction and Development at the Conference of 44 nations held at Bretton Woods, New Hampshire, USA in July 1944. IMF is the principal International Monetary Institution established to promote a cooperative and stable global monetary framework. At present, 184 nations are members of the IMF.

India is a founder member of the IMF. India has not taken any financial assistance from the IMF since 1993. Repayment of all the loans taken from International Monetary Fund has been completed on May 31, 2000.

India's current quota in the IMF is SDR (Special Drawing Rights) 4,158.2 million in the total quota of SDR 217 billion, giving it a share holding of 1.92 per cent. India's relative position based on quota is 13th. However, based on voting share, India (together with its constituency countries viz. Bangladesh, Bhutan and Sri Lanka) is ranked 22nd.

Article IV Consultations

As part of its mandate for international surveillance under the Articles of Agreement, the IMF conducts what is known as Article IV Consultations to review the economic status of the member countries, normally, once a year. Article IV consultations are generally held in two phases. Latest round of Article IV Consultations for India took place in October 2006.

Participation by India in Financial Transactions Plan (FTP)

India agreed to participate in the Financial Transaction Plan of the IMF in late 2002. Forty-three countries, including India, now participate in FTP. By participation in FTP, India is allowing IMF to encash its rupee holdings as part of our quota contribution, for hard currency which is then lent to other member countries who are debtors to the IMF.

From 2002 to December 2006, India has made purchases transactions of SDRs 493.230 million and seven repurchase transactions of SDRs 616.974 million.

Committee on Financial Sector Assessment (CFSA)

Recognising the need to persevere with the financial sector development and with a view to assessing the financial stability and the status of implementation of financial standards and codes, Reserve Bank of India in consultation with the Government of India has constituted a Committee on Financial Sector Assessment. The Committee will be chaired by Dr. Rakesh Mohan, Deputy Governor, Reserve Bank of India with Shri Ashok Jha, Finance Secretary as its co-chairman. The Committee for is self-assessment will use, inter alia, the detailed handbook on Financial Sector Assessment published jointly by the World Bank and the IMF. The committee will review its own status and report the progress to the Government of India/Reserve Bank of India in six months from commencement of its work.

India and the G 20

This international forum of Finance Ministers and Central Bank Governors represents 19 countries, the European Union and the Bretton Woods Institutions (the IMF and World Bank). In the year 2006, the G-20 Ministerial meeting was held at Melbourne, Australia on 18-19th November, 2006. The sessions in this meeting were on Current Economic and Development Issues, Energy and Minerals (outlook and macroeconomic implications & well functioning markets), Demographic Change, Reform of Bretton Woods Institutions and the Political Economy of Reform. Mr. P. Chidambaram, Finance Minister of India was the lead speaker in the session on “Demographic Change”.

International Finance Corporation (IFC)

India is one of the founder members of the IFC, an affiliate of the World Bank established in 1956 to promote growth in Private Sector and Joint enterprises mostly in manufacturing and infrastructure sectors. The total investment of IFC during last FY (July 2005-06) was to the tune of US$ 400 million, whereas during current Financial Year (July onwards)till December 31, 2006 it is US$ 301 million in 9 companies.

Global Environment Facility (GEF)

The Global Environment Facility (GEF) is financial mechanism that provides grants to developing countries for projects that benefit the global environment and promote sustainable livelihood in local communities. GEF projects address the six designated focal areas – biodiversity, climate change, international waters, ozone depletion, land degradation and Persistent Organic Pollutants.

India has been a leading developing country participant in the GEF since its inception in 1991 and has played a major role in shaping GEF. India is both a donor and a recipient of GEF. It had contributed US$ 6 million to the core fund of the GEF Pilot Phase. India has pledged US$ 9 million towards each of the four Replenishments. The total funds pledged so far amounts to US$42.0 million, out of which an amount of US$ 33 million has been paid so far.

India has formed a permanent Constituency in the Executive Council of the GEF together with the Bangladesh, Sri Lanka, Bhutan, Nepal and Maldives. The Council meetings are held semi-annually or as frequently necessary. At each meeting, the Council elects a Chairperson from among its members for the duration of that meeting. India's Executive Director in the World Bank represents the GEF Council from Indian Constituency.

International Fund for Agriculture Development (IFAD)

India is one of the original members of the IFAD. The Government of India has committed to contribute US$ 17 million towards the 7th Replenishment of IFAD Resources. Government of India has made the payment of US$ 5 million as 1st Installment to the 7th Replenishment of IFAD. Since inception, India has contributed US$ 67 million towards the resources of IFAD till 10.01.2007.

IFAD has assisted in 20 projects in the Agriculture and Rural Development Sector with the commitment of US$ 534.18 million. Out of these, 13 projects have already closed/ cancelled.

UN Branch

UNDP Assistance to India

United Nations Development Programme (UNDP) is the largest source of Development Cooperation in the UN System. It derives its funds from voluntary contributions from various donor countries. The overall mission of UNDP is sustainable human development through high priority to poverty alleviation, gender equity and women's empowerment and environmental protection. India's annual contribution to UNDP has been to the extent of US$ 4.5 million.

Country Co-operation Framework

UNDP canalizes its development assistance through Five Year Country Cooperation Framework (CCF), synchronous with India's Five Year Plan. At present, the Country Co-operation Framework – II (CCF-II) is in operation. It covers at 4 thematic areas– (i) Promoting Human Development and Gender Equality (ii) Capacity Building for Decentralization (iii) Poverty Eradication and Sustainable Livelihoods (iv) Vulnerability Reduction and Environment Sustainability. The total resource base of this programme is around US$ 190 million. At present there are 22 ongoing projects of US$ 57.452 million under CCF. Of these, two projects amounting to US$ 3 million were approved in the calendar year 2006.

7. Foreign Trade Division

This Division renders advice to the Ministry of Commerce, especially from foreign exchange angle, on policies pertaining to Indian foreign trade including matters connected with WTO and Free Trade Agreement (FTA) etc. Other matters handled in the Division pertain to Russia and CIS countries, Technical Assistance, African Development Bank, Investment Commission, Foreign Investment Promotion Board (FIPB) and Lines of Credit are also handled in this Division.

The detailed performances of the each section in the year 2006-07 are as under:

WTO Section

During the year several issues pertaining to financial Services under the WTO agreements on economic cooperation like drawing up draft model Schedules under GATS and negotiations under Free Trade Agreements, Regional Trade Agreements with other countries covering financial services were taken up. Currently, negotiations for a Comprehensive Economic Cooperation are under process which covers areas such as investments, Financial Services with countries like Mauritius, Korea and Sri Lanka.

The first meeting of the India-China Financial Dialogue was held on 7th April 2006 at New Delhi, India. Both sides emphasized the important role the Dialogue has played in strengthening mutual understanding and cooperation in macroeconomic and financial areas of the two countries, and promoting bilateral relation in general.

The two sides regarded the meeting as a concrete contribution to the year of India-China Friendship in 2006, and expressed their determination to maintain the momentum in their relationship in the field of economic and financial cooperation.

The First meeting of the SAARC Finance Ministers was held in Islamabad on July 11,2006 and it inter alia finalized the proposal to set up a SAARC Development Fund(SDF). The SDF will be an umbrella Fund with three windows-social, economic and infrastructure. The social window will draw upon the $ 100 million for projects on poverty alleviation announced by the Prime Minister of India. The SDF will have a Board of Directors representing all the Member States with the Chairmanship of the Board rotating every two years. The permanent secretariat will be headed by a Chief Executive under the guidance of the Board of Directors.

International Coorperation (IC) Section

During this year (April-October 2006), 830 approvals were granted for overseas investments worth US$ 5806.51 million.

During the year(April-December, 2006) negotiations, for finalizing and concluding the Bilateral Investment Promotion and Protection Agreement (BIPA), were conducted with Canada, Iceland, Macedonia, UAE, Jordan, Trinidad & Tobago and Mexico. Based on these negotiations as well as by carrying on the negotiations conducted during earlier years, text was finalized for BIPA with Mexico, Iceland, Mozambique, Bangladesh, Trinidad and Tobago, Jordan and DPR Korea.

During the same period under review, BIPA was signed/ratified with Bosnia & Herzegovina, Slovak Republic, China, Jordan and Armenia while Cabinet has already accorded approval for concluding BIPA with DPR Korea and Trinidad and Tobago. Signing of these Agreements is awaited for want of completion of procedural formalities.

Till December 2006, agreements have been signed with 62 countries of which 50 have been ratified and others are in various stages of ratification.

IDEAS(CIE-II) Section

GOI supported lines of credit extended to foreign countries In the year 2006-2007 (since April, 2006 till date i.e. 2.01.2007), following proposals for extension of GOI supported lines of credit to be routed through the Exim Bank of India have been approved:

(i) US$ 65 million credit line to Government of Ethiopia

(ii) US$ 250 million credit line to ECOWAS Bank for Investment and Development (of Africa)

(iii) US$ 8 million credit line to Government of Seychelles

(iv) US$ 9.5 million credit line to Government of Jamaica

(v) US$ 50 million credit line to Government of Afghanistan

(vi) US$ 10 million credit line to Government of Myanmar

Technical Assistance (IA) Section

Matters relating to bilateral relations with Russia

The 3rd meeting of Indo-Russian Joint Task Force was held on 8th & 9th December, 2006 in New Delhi under the Chairmanship of Finance Secretary to discuss the issues on settlement of Inter-Governmental financial obligations. Representatives of various Ministries/Departments/Defence Organisations were present.

The following issues were discussed in the meeting:

(i) Utilization of the accumulated rupee funds towards investment in India.

(ii) Issues in respect of nuclear fuel supplied to India for the Russian assisted Kudankulam Nuclear Power Project.

(iii) Settlement of the payment claims of Indian exporters/ shipping companies for deliveries of goods and services to the former USSR and the Russian Federation.

(iv) Short payments under the State Credits granted by the former USSR and the Russian Federation to the Government of India (Defence Services and Defence Public Sector Undertakings).

Technical Cooperation Scheme(TCS) under Colombo Plan

During the period under review, around 250 scholars of 18 Colombo Plan member countries have attended training in various institutes of India under the TCS of Colombo Plan. The areas of training covered human resource development, audit and accounts, commerce, information technology, computers education, parliamentary matters, rural development, textile, water resources, medical sciences, engineering, financial management, insurance etc.

Foreign Investment (FI) Unit

Foreign investment flows to India

Foreign investment flows to India, comprising foreign direct investment (FDI) and foreign portfolio investment (FPI), have risen sharply during the 1990s reflecting the policies to attract non-debt creating flows. Foreign investment flows have increased from negligible levels during 1980s to reach US$ 20 billion by 2005-06. Cumulative foreign investment flows have amounted to US$ 106 billion since 1990-91 and almost evenly balanced between direct investment flows [US$ 49 billion) and portfolio flows (US$ 57 billion). Since 1993-94, FDI flows have exceeded portfolio flows in five years while portfolio flows have exceeded FDI flows in the remaining eight years. As a proportion to FDI flows to emerging market and developing countries, FDI flows to India have shown a consistent rise from 1.6 per cent in 1990's to 3.7 per cent in 2005.The share of net FDI flows to India as a proportion to total flows to emerging market and developing countries is higher and remained in the range of 12-15 per cent during 2004 and 2005.

The sharp rise in portfolio investment into India since 2003-04 reflects both global and domestic factors Search for yield in view of very low real long-term rates in advanced economies have been an important factor driving portfolio flows to emerging market economies as a group and India has also attracted such flows. Domestic factors such as strong macroeconomic fundamentals, resilient financial sector, deep and liquid capital market, improved financial performance of the corporate sector and attractive valuations also attracted large portfolio flows between 2003-04 and 2005-06.

The Government has also taken steps to enhance the FDI sectoral caps in infrastructure in recent years [e.g. telecom, civil aviation). FDI up to 100 per cent through the Reserve Bank's automatic route was permitted for a number of new sectors in 2005-06 such as green-field airport projects, laying of pipelines, export trading. FDI caps under the automatic route were enhanced to 100 per cent for coal and lignite mining for captive consumption and setting up infrastructure relating to marketing in petroleum and natural gas sector. All these measures have been contributing towards increasing direct investment.

Foreign direct investment (FDI) flows into India were 37 per cent higher during 2005-06 on the back of positive investment climate, improved growth prospects and initiatives aimed at rationalising and liberalising the FDI policy and simplifying the procedures.

During 2006-07 upto August 2006, FDI inflows recorded an increase of US$ 4, 008 million as against an increase of US$ 2,573 million during the corresponding period of the previous year.

Country-wise, Mauritius and the US remained the major FDI investors in India. FDI flows from the UK and Singapore increased sharply during 2005-06. Sector-wise, FDI flows continued to be attracted by the increasing competitiveness of select manufacturing industries and services, particularly business and computer services. At the global level, services have been the key attraction for foreign direct investors, a structural shift indicative of offshoring. In India, the services sector attracted the largest FDI flows -US$1.3 billion in 2005-06 (US$1.1 billion in 2004-05). FDI flows into the manufacturing sector also increased substantially during 2005-06.

Recommendations of the Investment Commission

The Investment Commission was set up in December 2004 with a view to make the environment in India attractive for investors. The Commission has the broad authority of the Government to engage, discuss with and invite domestic and foreign businesses to invest in India.

The Commission in its report of February 2006 titled "Investment Strategy for India" has observed that for sustaining growth at over 8 per cent per annum will require an increase in investment levels in the economy from approximately 28 per cent of GDP to about 32 per cent of GDP. Over the next 5 years, this translates to a cumulative investment of about US$ 1.5 trillion. The Commission has set itself the goal to increase the level of FDI from the existing level of about US$ 5 billion to US$ 15 billion by 2007-08.

The Commission studied 25 key sectors spanning Infrastructure, Manufacturing, Services, Natural Resources and the Knowledge Economy. They represent a significant part of the economy and would require an aggregate investment of US$ 525 - US$ 550 billion over the next 5 years.

The Commission on the recommendation of a few National Thrust Areas with defined national goals, where all impediments for growth are removed, and where appropriate incentives are provided, to encourage investment in the Thrust Areas and/ or in supporting infrastructure have been identified these are:

- Tourism
- Power
- Textiles
- Agro-processing

These specific sectors would also create enormous job opportunities (both direct and indirect) resulting in a considerable boost to the economy.

The recommendations of the Commission are being processed in consultation with respective administrative ministries.

Government have also undertaken a major rationalization of the FDI policy, and associated procedures in February 2006, to further improve the investment climate which, inter alia, include dispensing with the need of multiple approvals from Government and/or regulatory agencies that exist in certain sectors, extending the automatic route to more sectors, and allowing FDI in new sectors. The latest changes in the FDI policy were notified vide Press Note 4 (2006 Series) of Department of Industrial Policy and Promotion.

Foreign Investment Promotion Board (FIPB) Unit

The Foreign Investment Promotion Board (FIPB) has been reconstituted vide OM No. 1/3/2003-FIU dated 18-2-03 and transferred to the Department of Economic Affairs(DEA), Ministry of Finance.

The Foreign Investment Promotion Board is a single window clearance for FDI proposals and comprises the core Group of Secretaries of Department of Economic Affairs, Department of Industrial Policy & Promotion, M/o Small Scale Industries, D/o Revenue, D/o Commerce, M/o External Affairs and M/o Overseas Indian Affairs.

FIPB is chaired by the Secretary of the Department of Economic Affairs and its meetings are held twice a month. All proposals/ Papers relating to FIPB are received at the Facilitation Counter at Gate No. 8 of the North Block.

FDI Proposals seeking FIPB approval are handled in this Department and proposals of NRI Investment, Foreign Technology transfer/trade marks agreement and FDI in 100 per cent Exports Oriented Units(EOU) are handled in the Ministry of Commerce & Industry, Department of Industrial Policy & Promotion (DIPP). The FDI Policy and FDI Data are also handled in the DIPP.

During the Financial year 2005 - 2006, total 15 meetings were held in which 616 proposals were considered and 473 proposals were approved. The FDI inflow involved was approximately Rs.12,315.978 crore.

During the Financial year 2006-07 (upto 8 December 2006), total 11 meetings were held in which 281 proposals were considered and 234 proposals were approved. The FDI inflow involved was approximately Rs.17,108.819 crore.

8. Aid Accounts & Audit Division

This Division, which is a part of the External Finance Wing of the Department of Economic Affairs, is responsible for various functions relating to external loans/grants obtained by Government of India from various multilateral and bilateral donors. The functions handled by the Division include interaction with Project Implementing Agencies and Donors, processing of claims received from projects and arranging of draw down of funds from various donors, timely discharge of debt service liability of Government of India towards various loans obtained, maintenance of loan records, external debt statistics, compilation of various management information reports, publication of external assistance brochure on annual basis, and framing of Budget Estimates of aid receipts and debt servicing. In addition, this Division carries out audit of import licences issued to registered exporters for export promotion, by the 40 licensing Offices (including export processing Zones) under Director General of Foreign Trade (DGFT).

Performance/Achievements upto last year.

The external receipts on Government accounts during 2005-2006 in the form of loans/credits were Rs.14,573.91 crore against the Revised Estimates of Rs.14,540.58 crore. Cash Grant Assistance received during 2005-2006 was Rs.2737.07 crore against RE of Rs.2,969.84 crore.

Performance/Achievements during current financial year.

The drawal of external loan/credits during 2006-07 upto

December 31, 2006 is Rs.10,249.17 crore against RE of Rs.15,812.95 crore and cash grant assistance received upto December 31, 2006 is Rs.1,699.87 crore against RE of Rs.2,321.09 crore.

E-Governance

Entire work activities of Aid Accounts and Audit Division have been fully computerized since April 1999, based on an on-line system namely "Integrated Computerised System (ICS)". ICS covers all the activities in the loan cycle, preparation of budget for external assistance both for receipt and repayment, preparations of annual external assistance brochure and in maintaining update CS-DRMS. The ICS has been refined/ fine-turned to suit the user requirement during this year. The on-line system ICS has contributed to enhance functional efficiency of this office, apart from enabling close monitoring of all the work activities. All the officers and staff members of this Division have been trained for functioning under computerised work environment.

A comprehensive Web-site on External Assistance is being maintained by this Division under website address http://finmin.nic.in/caaa for the benefit of all Credit Divisions, State Govts., Project Authorities, and Donors etc. This website contains comprehensive information relating to disbursement status Donors-wise, Loan/Credit/Grant-wise, State-wise, Sector-wise on a monthly, quarterly, and yearly basis. The Website is updated monthly. Website also provides up-to-date status of claim submitted by the Project Implementing Agencies covering the entire claim cycle i.e. from receipt of claim up to ACA release. Apart from this claim cycle, a separate report provides a detailed report of ACA release made by PF-I Division w.e.f. 01-04-2002. Further more disbursed outstanding debt in respect of external sovereign borrowing on various parameters can also be quarried from the website. This updated status is made available from the server maintained in this Division. The website also contains Key Statistical information relating to overall portfolio of External Assistance apart from disbursed Outstanding Debt and Terms and Condition of External Assistance from different donors. Soft copy of External Assistance Brochure is also available at the website for ease of reference by any user.

Possibility of receiving the claims with projects through E-submission has been tested and the work is in progress. This will help in early submission of claims to donors.

A Dynamic website **aaadmof.gov.in** which would enable any user to generate customised report according to their specific requirements has also been implemented by AAAD. Work of e-processing of claims for arranging disbursement and also for tracking of Audit disallowances recovered by the World Bank from current claims has also been partly started.

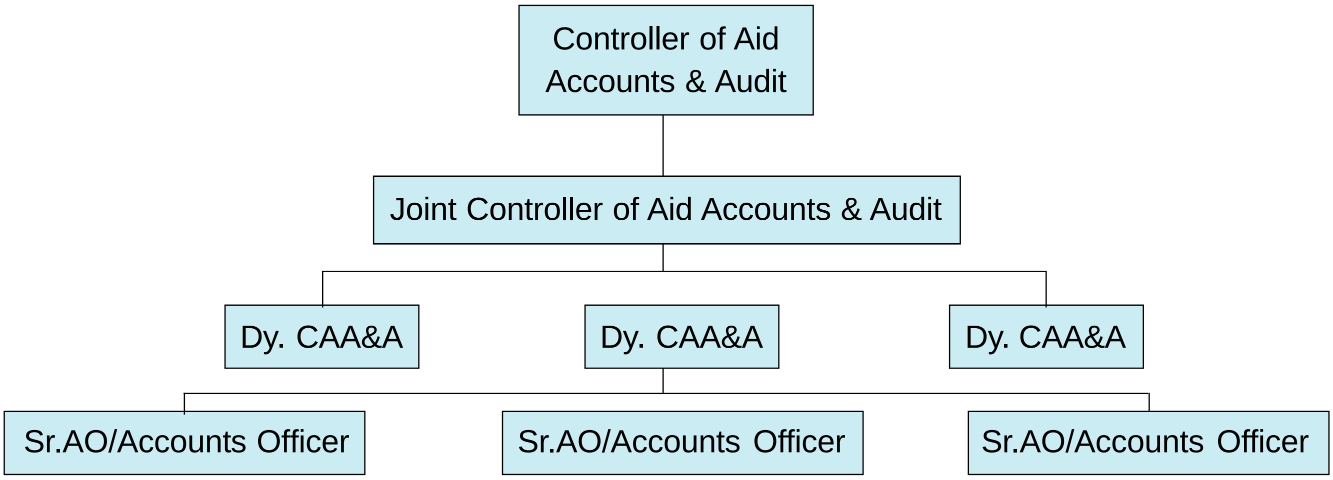
This Division has also received ISO 9001:2000 certification in the month of May 2006.

9. Administration Division

Functions: Administration Division is responsible for personnel and office administration of the Department and implementation of official language policy of the Government by the Department and its attached/subordinate offices.

II Staff Strength: The staff strength and the strength of Scheduled Castes (SCs), Scheduled Tribes (STs) and Other Backward Classes (OBCs) employees in Department of Economic Affairs (Main) as well as NSO, Nagpur and Mints/ Presses of Government of India.

Organisation Chart of the Division



A. Representation of Scheduled Castes/Scheduled Tribes/Other Backward Classes during 2006-07

Group	Total number of employees	No.of SCs	No. of STs	No. of OBCs
Group "A"	336	40	23	7
Group "B"	807	145	46	14
Group "C"	2,283	391	160	101
Group "D" (excluding Sweeper)	920	330	58	73
Group "D" (sweepers)	13	13	0	0
Unclassified/Industrial Workmen	14,217	2,995	1,345	644
Total	18,576	3,914	1,632	839

B. Representation of Ex-Servicemen in Group 'C' and 'D'

Group	Total No of employees	Ex-servicemen
Group "C"	2,283	227
Group "D" (excluding Sweeper)	920	81
Group "D" (Sweeper)	13	0
Unclassified/Industrial Workmen	1,4217	213
Total	**17,433**	**521**

C. Position of persons with disability during 2006-07.

Group	Total No of employees	No of persons with disability		
		VH	HH	OH
Group A	336	0	0	4
Group "B"	807	0	1	5
Group "C"	2,283	1	1	29
Group "D"	933	5	2	10
Unclassified/Industrial Workmen	14,217	46	81	241
Total	**18,576**	**52**	**85**	**289**

VH: Visually Handicapped; HH: Hearing Handicapped; OH: Orthopaedically Handicapped

III Grants-in-aid:

During the year 2006-2007 (upto 31-1-2007) the following amounts were sanctioned as Grants-in-aid:

S.No.	Name of the Grantee Institution	Purpose	Amount released
1.	Indian Economic Association	For holding its 89th Annual Conference at Kurukshetra University, Kurukshetra (Haryana)	Rs.5.00 lakh
2.	Indian Econometric Society	For holding its 43rd Annual Conference at IIT, Mumbai	Rs.2.50 lakh
3.	National Council of Applied Economic Research	For meeting part of their Administrative Expenses during the year 2006-2007.	Rs.50.00 lakh
4.	Madras School of Economics	For increasing the infrastructure, strengthening, teaching and research capabilities of the Institute	Rs 20.00 lakh
5	Indian Council for Research in International Economic Relations	Block grant assistance for their activities during the year 2006-2007.	Rs 15.00 lakh
6.	Information International, Bhubaneswar	For organizing a seminar on "Social Disparity in Development: Issues and Challenges of Tribal Development" in Orissa.	Rs 2.75 lakh

IV Complaints Committee on Sexual Harassment of Women Employees

A Complaints Committee has been set up in the Department of Economic Affairs (Main) for considering complaints of sexual harassment of women employees. The composition of the Committee is as follows:

i)	**Smt. L.M. Vas** Joint Secretary (Budget), Department of Economic Affairs	Chairperson
ii)	**Dr. Jaya Kothai Pillai** Secretary General, AIWC	Member (Women representative from NGO)
iii)	**Ms. Manisha Sensarma,** Deputy Secretary (PSE &BM) Department of Economic Affairs	Member
iv)	**Deputy Secretary (Vigilance)** Department of Economic Affairs	Member Secretary (ex-officio)

During the year under report, progress made in the implementation of various provisions under the Official Language Policy of the Government continued to be reviewed.

v) Use of Hindi in Official Work

All documents required to be presented in Parliament were provided bilingually. Section 3(3) of Official Language Act, 1963, and Rule 5 of Official Language Rules, 1976 made thereunder and other instructions issued by the Department of Official Language were fully complied with. A number of steps were taken in the Department to promote the use of Hindi in official work during the year:

i) Annual programme for the year 2006-07 issued by the Department of Official Language was circulated to all the attached/subordinate offices/ divisions/ sections under the Department and efforts were made to achieve the targets fixed therein;

ii) The Third Sub-Committee of the Committee of Parliament on Official Language visited this Department to assess the progress of use of Hindi in official work. Apart from this, the Committee also inspected SEBI's Regional office situated in Delhi and Government of India Mint, Noida. Certain assurances were given to the Committee and steps were taken to fulfill the same;

iii) In order to do 100 per cent work in Hindi, three sections were specified under Rule 8(4) of Official Language Rules, 1976. Thus the number of such section has gone up to 11.

iv) Compliance of the decisions taken in the meeting of Hindi Salahkar Samiti of the Department was ensured;

v) Hon'ble Minister of Finance in his "Message" on the auspicious occasion of Hindi Day on 14th September 2006 appealed to the officers and staff of the Ministry of Finance as well as the Offices under its control to do their official work in Hindi;

vi) In order to remove the hesitation amongst officers and staff to do their official work in Hindi and to acquaint them with the rules and other instructions regarding the Official Language Policy of the Government, Hindi workshops were conducted in which 19 officials were trained;

vii) 37 sections of the Department were inspected by the officials of Hindi Division and suggestions were given to promote the use of Hindi;

viii) Official Language Implementation Committee of the Department of Economic Affairs continued to monitor the implementation of Official Language Policy through its meetings; and

ix) To create a conducive atmosphere in the Department regarding the progressive use of Hindi, *Hindi Fortnight* was organized during 14th to 29th September, 2006. On the occasion, various Hindi Competitions namely Hindi Noting and Drafting, Essay Writing, Hindi Typing and Shorthand, Poem Recital and Debate etc. were conducted and given cash awards to the winners on the merits. This year, the amount of prizes were substantially enhanced.

VI Finance Library & Publication Section

Finance Library & Publication Section was established in 1945. Finance library functions as the Central Research and Reference Library in the Ministry and caters to the needs of and Commissions setup from time to time and research scholars from the various universities in India as well as abroad. This Library also serves as the Publications Section of the Ministry, coordinating the procurement and distribution of official documents with the various institutions/individuals on demand in India and abroad.

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

Collection

Library has specialized collection of more than two lakh documents on Economic and Financial matters and subscribe to more than 800 periodicals/newspapers annually.

Electronic Resources

- Electronic resources include the following CD-ROM databases
- Census of India 2001.
- CMIE publications.
- Economic Survey.
- Foreign Trade Statistics of India (DGCIS).
- Monthly Statistics of Foreign Trade of India: Export – Import (DGCIS).
- RBI – Banking Statistics & Basic Statistical Returns 1 & 2. Vol 1 to 31, 1972 to 2002.
- Statistics of Foreign Trade of India by Countries: Export – Import (DGCIS).
- Union Budget.

Services

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

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

Publications

Finance Library compiles one weekly publication i.e. "Weekly Bulletin" a subject bibliography indexing articles of interest from about 200 journals/newspapers.

Computerisation

The Library uses libsys Library package for database management, retrieval, Library automation and other in-house jobs.

11. Bilateral Cooperation Division

11.1 Japan

11.1.1 Japan provides the largest amount of bilateral development assistance to India. Japanese bilateral loan assistance to India is received through JBIC (Japan Bank for International Cooperation), formerly know as Overseas Economic Cooperation Fund (OECF). Grant Aid and Technical Cooperation are received through JICA (Japan International Cooperation Agency). In the **year 2005-06**, Govt. of Japan has committed Yen 155.458 billion (equivalent to Rs.6218 crore approximately at the present exchange rate) for ten projects, which is so far the largest ODA loan commitment of Govt. of Japan to India in a single financial year. It constitutes 27.4 per cent of Japan's global ODA commitments for FY 2005-06.

11.1.2 The Japanese ODA loans to India are "untied loans". These are routed through Japan Bank for International Cooperation (JBIC). ODA loan is mostly project based with an interest rate of 1.3 per cent per annum for general projects with a 30 years tenure including a grace period of 10 years. For environmental projects, the interest rate is 0.75 per cent per annum with a 40 years tenure including a grace period of 10 years. The central PSUs borrowing directly from JBIC under Government of India guarantee can choose interest rate and moratorium periods from a bouquet of options having interest rate ranging from 1.3 per cent per annum to 0.5 per cent per annum and repayment period ranging from 30 to 15 years for various types of projects. Japanese loan assistance is available for financing up to 85 per cent of the project cost either in foreign exchange or local cost and they are denominated in Japanese Yen.

11.1.3 During 2006-2007 (upto 31.12.2006), disbursement of Japanese ODA to India was Japanese Yen 30.26 billion (about Rs.1,173.5 crore) for 48 projects. The undisbursed loan from Japan is Rs.13,875.28 crore.

11.1.4 JBIC has appraised the following 11 projects for ODA funding in FY 2006-07 package:

1. Gujarat Forestry Development Project-II
2. Tripura Integrated Forestry Development Project
3. Distribution Upgradation in Bangalore City
4. Modernization and Strengthening of transmission system in the twin cities of Hyderabad and Secunderabad
5. Sri Guru Ramdas Urban Development Project
6. Ganga Jal Project for Agra
7. Kerala Water Supply Project-II
8. Orissa Integrated Sanitation Improvement Project
9. DMRTS Phase-II Tranche-II
10. Andhra Pradesh Minor Irrigation and Livelihoods Projects

11. Upgradation of Iron Ore facility in Visakhapatnam Port Trust Project (Tranche-II)

If finally selected by Government of Japan, Loan Agreements for these projects will be signed between Government of India and JBIC by 31st March 2007.

11.1.5 A concept of Rolling Plan has been introduced from the year 2006-07 in the system of ODA loan from Japan. This provides a medium term plan of action of a central ministry, according to its sectoral and regional priorities, to produce a roadmap for 3 to 4 years for the critical utilization of ODA. In the long run this helps in optimal and systematic channeling of ODA funds towards the achievement of national priorities.

11.1.6 Grant Aid

Government of Japan provides grant aid of Yen 3-4 billion approximately per annum. At present two projects are under implementation with Japanese Grant-aid. Out of these projects, Notes for grant assistance of JY 603 million were signed and exchanged on 5.1.2006 for the Project for Development of Groundwater in the state of Uttar Pradesh.

The response of Government of Japan is awaited on twenty six proposals posed under grant aid programme.

11.1.7 Technical Cooperation with Japan

Japan International Cooperation Agency (JICA) implements Project-Type Technical Cooperation in which they send their experts for technical guidance, provide training in Japan to Indian counterparts and provide equipment necessary for the implementation of the project. They also conduct Development Study to examine the feasibility of a project proposal and also cover the formulation of master plan for regional and sectoral development. This facilitates consideration of projects in future either by Japanese loan or other external agency for implementation. JICA also provides individual experts and equipment as required by Indian organizations.

Priority areas for JICA in India are (i) public health and medical care, (ii) agriculture and rural development, (iii) environmental conservation and protection, and (iv) improvement of economic infrastructure.

The Record of Discussions and Minutes of Meeting were signed on 11.8.2006 for the project "Conservation and Wise-use of natural resources of Chilika Lagoon through community participation."

Note Verbale were exchanged in the month of January 2006 between Government of India and Government of Japan to formalize the arrangements for implementation of "Dedicated Multimodal High Axle Load Freight Corridors with Computed Control between Delhi-Mumbai and Delhi-Howrah" under Feasibility Study Programme of Government of Japan. Interim Report has been submitted by JICA in December, 2006.

JICA Partnership Programme involving Indian and Japanese NGOs, was started in 2001 and one proposal was cleared in April, 2006.

11.1.8 Grassroots Funding

Government of Japan also provides small grant assistance to Indian NGOs under its scheme for "Grant Assistance for Grassroots Projects". Twenty eight proposals have been cleared by Department of Economic Affairs in this financial year till. 31.12.2006.

11.1.9 Green Aid Plan

Government of Japan also provides technical assistance under Green Aid Plan through their Ministry of Economy, Trade and Industry. The principal policy of this plan is to support the self-help effort of the developing country to cope with the issues in the areas of energy conservation. The areas of cooperation are prevention of water pollution, air pollution, treatment of wastes and recycling and energy conservation and alternative energy source.

A signing ceremony was held on 16.6.2006 for Model Project for Increasing the efficient use of energy using a Coke Dry Quenching System (CDQ) to be implemented at TSL, Jamshedpur with assistance from NEDO, Japan as the first ever CDM activity under Japanese Green Aid Plan.

11.1.10 Japan Overseas Cooperation Volunteers (JOCV) Programme

Exchange of Note was signed between Department of Economic Affairs and Embassy of Japan on 12.8.2005 to resume the JOCV Programme in India in the fields of Japanese language and judo instructions only. The programme is open to all areas/regions of India except the North Eastern States including Sikkim, State of Jammu & Kashmir and areas declared as restricted/protected by Ministry of Home Affairs.

The proposals from six institutes were posed to Embassy of Japan for the year 2006-07. Three Japanese volunteers were appointed under the programme one each at Delhi Public School, CIEFL, Hyderabad and Vishwa Bharti University. The proposals from two institutes have been posed to Embassy of Japan for the year 2007-08.

11.2 Australia

Australian Development Assistance to India started in the year 1951. This is channeled through the Australian Agency for International Development (AusAID). The bilateral development cooperation with Australia has been discontinued in pursuance to Government of India's new guidelines on bilateral development cooperation in the year 2003.

11.2.1Collaborative research through ACIAR

Council of Scientific and Industrial Research (CSIR), Indian Council of Agricultural Research (ICAR) and National Dairy Development Board (NDDB) have MOUs with Australian Centre for International Agricultural Research (ACIAR) and they have been allowed to continue their cooperation with ACIAR on research collaborative projects, subject to clearance of DEA before signing new project agreements.

One proposal namely a project on Zero-Tillage rice establishment and crop-weed dynamics in rice and wheat cropping systems in India and Australia is being implemented by Australian Centre for International Agricultural Research (ACIAR) in collaboration with CCS Haryana Agricultural University (HAU), Punjab, Punjab Agricultural University (PAU) and University of Adelaide (UA). have been cleared on 27th September, 2006.

11.2.2 Australian assistance to Indian NGOs

AusAID provided small grant assistance for grassroots projects to be implemented by Indian NGOs in social sector under their South Asia Community Assistance Scheme (SACAS). No proposal was received from Australian High Commission / AusAID under this scheme during this financial year.

11.3 Norway

The Norwegian Bilateral Development Assistance Programme in India began in 1952 with Traditional Fisheries project in Kerala by way of technical assistance and financial support.

Since 1970, Norwegian assistance has been received as grants for financing Technical Cooperation and local cost projects, mainly in social and environment sectors.

Norway is a non G-8 non EU Contrary. There has been no disbursement of Norway bilateral development assistance in the Financial Year 2006-2007.

11.4 Sweden

India has been a recipient of Swedish Development Assistance since 1964. Since 1976, Swedish assistance has been received as grants.

There has been no disbursement of Swedish bilateral development assistance through GOI's budget during the last three years.

Sweden is a non G-8 EU country. Sweden will require committing minimum assistance of US$ 25 million per annum for acceptance Swedish ODA by Government of India. Sweden has so far not responded to our new policy.

11.5 Denmark

The Danish assistance has been received in the form of grants provided for local cost projects in poverty alleviation and social sector development. There has been no disbursement of bilateral development assistance from Denmark in 2006-2007.

Government of India has prepaid DKK 538.236 million (US$ 70.5 million) (approximately) and US$ 1.259 million to Government of Denmark covering the total outstanding amount on Danish loans. India has no further debt liabilities in respect of Denmark.

Government of Denmark and Government of India have mutually agreed to phase out Danish development programme in India by 31-12-2005.

11.6 Italy

The Italian bilateral development assistance to India started in 1976, and has been mostly in the form of suppliers' credit. Government of Italy has agreed to provide Euro 25.82 million as soft loan to fund the Water Supply and Solid Waste Management Project in 14 selected towns of West Bengal. The Financial Agreement was signed by Department of Economic Affairs on 10.1.2006.

There was no disbursement of Italian assistance through Government of India during 2005-06 and 2006-07(up to 31.12.2007).

11.7 The Netherlands

The Netherlands has been providing bilateral development assistance to India since 1962-63. Till December 1991, Dutch assistance comprised both loans and grants and was mainly for local cost financing. From 1992, all Dutch assistance has been received as grant.

Under the re-oriented bilateral development assistance policy enunciated by GoI in 2003, ODA from the Dutch has been discontinued. Netherlands is not a member of G-8. Being a member of EU, ODA from Netherlands can be resumed, if it commits minimum bilateral development assistance of US$ 25 million per annum to India. The Netherlands has not, so far, responded to our new policy.

The Dutch assistance disbursed through GoI during 2004-2005 and 2005 –2006 and 2006-07 has been Rs.30.288 crore, Rs. 29.62 crore and Rs.4.219 crore respectively.

11.8 Switzerland

10.8.1 Switzerland has been providing bilateral development cooperation assistance to India since 1960.

10.8.2 During the year 2004-05 Switzerland disbursed Rs.23.916 crore (Loan Rs.14.329 crore + Grants Rs.9.587 crore) through Government of India. During the year 2005-06 there was no disbursement. An amount of Rs.2.567 crore (Loan Rs.1.540 crore + Rs.1.027 crore) was disbursed during 2006-07(up to Dec.2007)

11.9 United Kingdom

10.9.1 The UK has been providing bilateral assistance to India since 1958. Since 1975, the UK assistance has been received in the form of grants. At present, the largest part of the grants received by India comes from the UK, and India is the largest recipient of the grants provided by the UK to its development partners. DFID's assistance is in various social sectors including Education, Slum improvement, Health and Family Welfare, etc. within the overarching framework of poverty alleviation. The existing priority States of DFID are Andhra Pradesh, Madhya Pradesh, Orissa and West Bengal. However, the UK is considering providing development assistance to other poorer states such as Bihar & Uttar Pradesh.

11.9.2 Performance/achievements upto last year

During 2005-06, UK had committed £ 247million (Rs.1976 crore) through signing of new agreements. During 2005-06, UK disbursed a total amount of £ 175.435 million (Rs.1371.486 crore) for the ongoing projects, through Government of India account.

11.9.3Information about the performance/ achievements during the year under review

During 2006-07, UK disbursed a total amount of £ 93.407 million (Rs.806.625 crore) up to 31.12.2006 for the ongoing projects. Since such disbursement is in the nature of reimbursement of expenses incurred, the total disbursement during the FY 2006-07 is likely to be further higher, as, generally 50-60 per cent of the total disbursement for a financial year is accounted for in the last quarter. In all, 3 new projects were posed to DFID till 31st December 2006. Fresh commitments for the current financial year (up to 31.12.2006) have been US$300.5 million (Rs.2,535.50 crore) through signing of new agreements in respect of (i) Public Management & Service Delivery Improvement Programme (GRP) Phase II, Andhra Pradesh; (ii) Madhya Pradesh Urban Services for the Poor; and (iii) Reproductive child Health (RCH-II) Phase II.

11.9.4Policy decision taken

In July 2004, a policy decision was taken by Government of India(GOI) on issues relating to external assistance for (a) Structural Adjustment Programmes (SAPs); and (b)Public Sector Enterprises Reform Programmes (PSERP) of State Governments. It was decided that GOI would hereafter not consider proposals for financing of SA Programmes and PSEER programmes of State Governments by DFID and other bilateral development partners. It was also decidsed that the grant assistance being received from DFID and other bilateral partners would be utilized for financing the projects in the social sectors for meeting the Millennium Development Goals (MDGs).

As decided during the Annual India-UK Consultation for development cooperation for 2006, an annual programming Cycle was put in place with effect from 1st August,2006

11.10 European Commission (EC)

The European Commission (EC) has been extending assistance to India since 1976. The EC assistance to India is provided as grant and is currently focused on education, health and environment.

In the initial stages, EC's development assistance was in the form of project financing. However, with the Support of Health & Family Welfare Sector Programme, EC shifted their strategy to Sector-based approach and more recently on Partnership approach with States in order to deploy bulk of their resources in these States for health, education and environment programmes.

Chhattisgarh and Rajasthan have been jointly identified for EC's 'State Partnership Programme (SPP)'. As per the Financing Agreement signed with EC on 14.08.2006 for SPP, EC would provide Euro 160 million for SPP with allocation of Euro 80 million each for Chhattisgarh and Rajasthan. EC assistance under SPP with Chhattisgarh will be in the areas of Education, Health and Environment. SPP with Rajasthan will focus on Drinking Water Supply in the State.

There are two on-going central projects in education sector (Sarva Shiksha Abhiyan) and health sector (Health & Family Welfare Development Programme) with EC assistance of Euro 200 million and Euro 240 million respectively.

Disbursement of EC assistance for ongoing development cooperation projects during 2005-06 was Euro 150.544 million (Rs.820.506 crore). During 2006-07 (upto 31.12.2006), the disbursement has been Euro 51.200 million (Rs.296.474 crore).

11.11 France

The Government of France has been extending development assistance to India since 1968. Prior to 2002, French assistance was available as a mix of Treasury Loan (50 per cent) and Commercial Loan (50 per cent). However, since 2002, French has discontinued the commercial loan window. French assistance is now provided only as Treasury Loan. As per the terms and conditions for the latest project [Digital Mapping Information System] signed under Indo-French Development Cooperation, the Treasury loan is repayable within a period of 23 years including a grace period 5 years at an interest rate of 2.6 per annum. The French assistance is tied to goods and services from France.

The total disbursement of French assistance during 2005-06 was Euro 4.292 million (Rs.23.207 crore). During the current fiscal year, Euro 0.763 million (Rs.4.416 crore) has been disbursed by France upto 31.12.2006.

11.12 India and the Commonwealth

Since the London Declaration of 1949, which established the modern Commonwealth, India has held a pivotal position in this Organization. It was India's decision in 1948, as a newly independent Republic, to remain in the Commonwealth which influenced other Asian and African countries to join the organization and which opened the era of the modern Commonwealth.

The Commonwealth Fund for Technical Cooperation (CFTC) is the principal means by which the Commonwealth delivers development assistance to member countries. CFTC is financed through voluntary contributions by the member countries. A pledge is normally made by a country to provide resources of a definite amount in a given financial year during the annual Commonwealth Finance Ministers' Meeting.

India is among five largest contributors of CFTC. India had been contributing £ 720,000 annually since 1998-99. Our contribution to CFTC was enhanced to £ 800,000 during 2005-06. During 2006-07, our contribution was further enhanced to £850,000.

11.13 North America (NA)

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

- Matters relating to US Economic Assistance to India and other territorial matters concerning USA. Work involves examination and processing of project proposals for United States Agency for International Development (USAID) bilateral assistance, appraisal and examination of project agreements, review and monitoring of ongoing and pipeline projections, preparation of external assistance budget for USAID assistance and monitoring of bilateral assistance disbursement.
- Residual work of bilateral projects assisted by Canadian International Development Agency (CIDA) and other territorial matters relating to Canada.
- Matters relating to Indo-US Financial and Economic Forum.
- Matters relating to assistance under US Public Law 480 under which USAID provides agricultural commodities for distribution through various organizations like CARE/ Catholic Relief Services etc.
- Extension of grants by Canadian High Commission, Ford Foundation (FF), International Development Research Center of Canada (IDRC) to Indian Institutions /NGOs.
- Sectoral charge relating to Ministry of Information & Broadcasting and Department of Tourism.

11.14 United States of America

USA has been extending economic assistance to India since 1951. US Development Assistance is channelised through US Agency for International Development (USAID). Presently, US Development Assistance is received in the form of grant and is available as project assistance.

Assistance disbursed in 2005-2006 was of the order of US$ 30.945 million as compared to US$ 36.799 million disbursed in 2004-05.

Under PL-480 (Title II), USA has been donating agricultural commodities as outright grant. USAID has disbursed a total amount of US$ 38.600 million (including freight) in 2004-05 as compared to US$ 41.700 million disbursed during 2004-05.

DEA is the nodal agency for the Indo-US Financial & Economic Forum, which is being pursued under the overall Indo-U.S. Economic Dialogue, being coordinated by Prime Minister's Office. Under this regular interaction with the US Government takes place. The last (3rd) Cabinet level meeting of the Forum was held at New Delhi on 9th November 2005, which was co-chaired by the Finance Minister and U.S. Treasury Secretary. The meeting was followed by a Sub-Cabinet level meeting held at Washington DC, USA on 23rd August 2006.

11.15 Canada

Canadian Economic Assistance to India started in 1951. Till October 2003, the total aid to India had been around C$ 3 billion. The assistance mainly comprised of Development assistance, food and technical assistance. Canadian assistance is channelised through the Canadian International Development Agency (CIDA). The assistance extended by CIDA since 1st April 1986 has been in the form of grant. The assistance through Govt. budget is negligible.

In October 2003, the Canadian International Development Agency (CIDA) notified to phase out their current bilateral aid program by 2006-07. The Government of India had, in October 2003, prepaid the entire Canadian Loan of CAD 419.941 million, against the loans taken by Government of India during 1966-1984.

The Government of India has reviewed the policy on bilateral development cooperation to affirm the liberalization and reform orientation in India's economic policy. As per the policy announced on 20.09.04, bilateral development assistance will be accepted from all G-8 countries including Canada, as well as European Commission.

In the year 2006-07, Canada has started extending grant assistance for local initiatives (CFLI) to India. During the year (up to December 2006) 13 proposals involving grant assistance of CAD 0.52 million have been cleared.

11.16 Assistance from Ford Foundation (FF)

The Ford Foundation has been extending grant assistance to various Indian NGOs/institutions since 1952 for implementing projects/studies etc. in the areas of health, rural development, social sector, education, culture etc. 30 project proposals involving total grant of US$ 5.670 million have been cleared in 2006-07 (up to September 2006) as compared to 66 project proposals involving total grant of US$ 13.445 million in 2005-06.

11.17 Assistance from International Development Research Centre (IDRC) of Canada

IDRC extends grant assistance to various Government and Non-government organizations for projects in the field of agriculture, food, health and family welfare etc. During 2006-07 (upto December 2006) 17 proposals involving grant assistance of CAD 1.881 million have been cleared as compared to 19 project proposals for the total grant of Can $ 3.336 million cleared in 2005-06.

11.18 Federal Republic of Germany

11.18.1 Germany provides financial assistance as well as technical assistance to India. The mutually agreed sectoral priorities of the Indo-German Development Cooperation are Energy; Environmental policy, protection and sustainable use of Natural Resources; Economic reforms. Even though Health is not a priority area, activities in the nature of health care financing, social health insurance, prevention of pandemic

(i) Project Agreements:

1.	Rural Water Supply Project, Rajasthan(Additional Assistance)	Euro 3 million Euro 1 million	Soft Loan Grant
2.	SIDBI-IV(SME - Financing & Development)	Euro 43.5 million	Reduced Interest Loan
3.	REC Energy Efficiency Programme	Euro 70 million	Loa
4.	Study & Expert Fund-VII	Euro 3.8 million	Grant
5.	Pulse Polio Immunization Programme-VIII	Euro 42 million Euro 8 million	Soft Loan Grant
6.	NABARD-X	Euro 40 million Euro 1 million	Reduced Interest Loan Grant
7.	Watershed Development Programme, Rajasthan	Euro 11 million	Grant

(ii) Government to Government Agreements:

1.	Indo-German Umbrella Agreement-2005 (FC)	Euro 332.900 million	Financial Assistance
2.	Indo-German Umbrella Agreement - 2001 & 2002 (TC)	Euro 13.310 million	Technical Assistance
3.	Indo-German Umbrella Agreement-2005 (TC)	Euro 19.500 million	Technical Assistance

(Amount in Euro Million)

S. No.	Name of the project	Amount of assistance							
		Financial						Technical (Grant)	
		Fresh			Reprogrammed			Fresh	Reprogrammed
		SL	RIL	Grant	SL	RIL	Grant		
1.	Climate Change Adaptation							6	
2.	ASEM new component: Environment Management Instruments in urban infrastructure financing							6	
3.	Development of Urban Infrastructure in Tamil Nadu	10	56			9	2		
4.	NABARD Umbrella Programme						3		
5.	REC Energy Efficiency Programme, Phase-II		50						
6.	Reform of the cooperative Banks – NABARDXI/2	20			20				
7.	Social Security Benefits for Unorganized Workers, Karnataka							6	
8.	Pulse Polio Immunization Programme-IX				42		8		
9.	Study and Expert Fund – TC(including Pilot Fund)								1.894
	TOTAL	**30**	**106**	**0**	**62**	**9**	**13**	**18**	**1.894**

RIL – Reduced Interest Loan, SL – Standard Loan contagious diseases (HIV/AIDS, Polio) and support to related health sector reform still continues.

11.18.2 For the year 2006, Germany has made total commitments of Euro 220 million as financial assistance and Euro 19.894 million as technical assistance. This includes new fund commitments of Euro 136 million as financial assistance (Euro 30 million as soft loan and Euro 106 million as reduced-interest loan) and Euro 18 million as technical assistance in the form of grants and reprogramming of earlier commitments of Euro 84 million as financial assistance and Euro 1.894 million as technical assistance. These commitments are for the projects given in the table below:

11.18.3 The total disbursement (excluding technical assistance) during 2006-07 (upto December, 2006) was Euro 39.326 million.

11.18.5 **Future Cooperation:** During the Indo-German Annual Negotiations on Development Cooperation held on 8-9th November, 2006 in Bonn (Germany), the German side took note of the Indian proposal to extend the Energy Efficiency Programme with REC and further agreed to use the Indo-German Energy Forum to explore new activities in the sector.

11.19 Project Management Unit (PMU)

Project Management Unit monitors the progress of implementation of externally aided projects (EAPs).

It undertakes regular review of disbursements in State and Central sectors and deals, inter alia, with measures for adequate provisioning for externally aided projects, advance release of Additional Central Assistance to the States and strengthening of procurement procedure. It is also involved in the co-ordination work relating to the preparation of budget estimates and revised estimates for Externally Aided Projects and plan discussion with Planning Commission.

During 2006-07 the total external assistance disbursed on Government and Non-Government account was Rs.12,496.053 crore (as on 31.12.2006) against Rs.18,775.137 crore during 2005-06.

Policy on bilateral development cooperation: Government of India has reviewed the policy of bilateral development cooperation to affirm the liberalization and reform orientation in India's economic policy. Bilateral development assistance will be accepted from all G-8 countries, namely, U.S.A., U.K., Japan, Germany, France, Italy, Canada and Russian Federation as well as the European Commission. Regarding the countries of the European Union outside the G-8, bilateral development cooperation from such countries which provide a minimum bilateral aid package (of US$ 25 million per annum) to India will be accepted. The other countries not covered by the above policy may consider providing bilateral aid directly to autonomous institutions, universities, NGOs, etc., as before. The policy also entails a simplified procedure to facilitate the flow of bilateral assistance to non-governmental organizations and autonomous institutions.

11.20 PSE & Training Section

11.20.1 The PSE & Training Section handles the following issues:

i. Issues relating to Disinvestment and public sector policy

ii. Tax Free Municipal Bonds

iii. Co-ordination of foreign training programmes

11.20.2 Issues relating to Disinvestment and public sector policy

PSE & Training Section represents the Department of Economic Affairs, Ministry of Finance in Inter Ministerial discussions on specific policy issues relating to the public sector including disinvestment and examines notes for consideration of the Committee of Secretaries, Cabinet Committee on Economic Affairs, Core Group of Secretaries on Disinvestment and other Empowered Groups/Committees. It has the sectoral charge of the Department of Disinvestment and the Ministry of Heavy Industries and Public Enterprises.

11.20.3 Tax Free Municipal Bonds

The Section also processes the proposals forwarded by Ministry of Urban Development (MOUD) for issue of Tax Free Municipal Bonds to be issued by Municipal Bodies to raise their resources for capital investment in urban infrastructure. MOUD is the nodal agency for processing the proposals received from various Municipal Bodies. The proposals are

Organisational Chart PSE & Training Section

Shri Kumar Sanjay Krishna
Joint Secretary
(Bilateral Co-operation)

Ms.Manisha Sensarma
Deputy Secretary

Shri D.R.Bhalla
Under Secretary

Shri Parate
Section Officer, PSE

Shri S.K.Nayyar
Section Officer, Training

Shri Bhima Ram
Section Officer, Training

placed before the Committee having representatives of MOUD, Department of Economic Affairs (DEA) and Central Board of Direct Taxes (CBDT). The proposal is then sent to DEA. DEA recommends the same with the approval of the Finance Minister and CBDT notifies the specified Bonds in the official gazette. These Bonds are eligible for tax exemption under Section 10(15) (vii) of the Income Tax Act. Two proposals of tax-free municipal bonds of Nagpur Municipal Corporation (Rs.128 crore) and Ahmedabad Municipal Coroporation (Rs.150 crore) were approved by the Ministry in 2006-07.

11.20.4 Foreign Trainings

PSE & Training Section co-ordinates all short-term foreign trainings under the technical c-operation programmes, except the project specific training programmes. Circulars seeking nominations of government officials for training courses abroad are issued by this Division to relevant central line Ministries/state governments. These include short-term programmes sponsored by agencies like the International Monetary Fund, Japan International Co-operation Agency, Commonwealth Secretariat, Swedish International Development Agency, USAID and others. Applications received are screened by the Selection Committee and nominations of selected candidates are forwarded to the sponsoring agencies.

12. Integrated Finance Branch

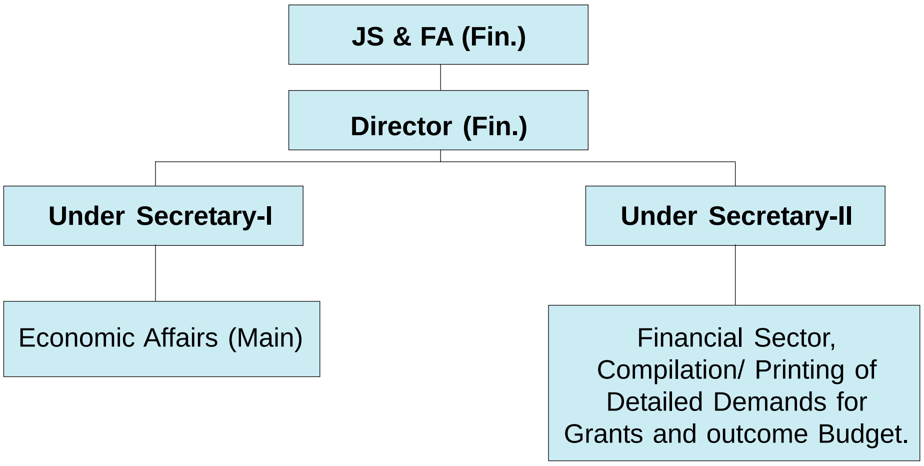
Integrated Finance Division of Department of Economic Affairs consists of three Branches, viz. Integrated Finance Branch – I, Integrated Finance Branch – II and Detailed Demands for Grants Cell.

Integrated Finance Branch – I & II

Integrated Finance Division is responsible for tendering financial advice on all matter involving expenditure and preparation of Budget for Demands No. 31 – Department of Economic Affairs and 33 – Payments to Financial Institutions. It also deals with preparation of Appropriation Account relating to the Grants and Appropriations controlled by Department of Economic Affairs.

INTEGRATED FINANCE DIVISION

Organisational Structure



(Rs.in crore)

			BE 2006-07	RE 2006-07
(i)	Demand No. 31 – Department			
	of Economic Affairs	Revenue	2,176.96	2,109.12
		Capital	658.01	132.61
		Total	2,834.97	2,241.73
(ii)	Demand No. 33 – Payments to			
	Financial Institutions	Revenue	2,669.43	10,646.39
		Capital	232.79	(-) 5,450.16
		Total	2,902.22	5,196.23

The Expenditure Budget of Department of Economic Affairs consists of two Demands No. 31 Department of Economic Affairs and 33 – Payments to Financial Institutions. The summarized details of these Grants are given below:-

Funds under both the above Demands were released on time keeping in view the economy instructions issued from time to time. Constant monitoring of expenditure helped in a substantial saving during the year.

Integrated Finance Division prepared the Performance Budget 2005-06 and Outcome Budget 2006-07 for the Ministry of Finance and presented to Parliament, as scheduled. While the Performance Budget highlighted the achievements of the Ministry, the Outcome Budget gave a projection of the implementation schedule of various schemes/programmes. RE 2006-07 and BE 2007-08 allocations were completed on time in consultation with Budget Division and Department of Expenditure.

Detailed Demands for Grants Cell

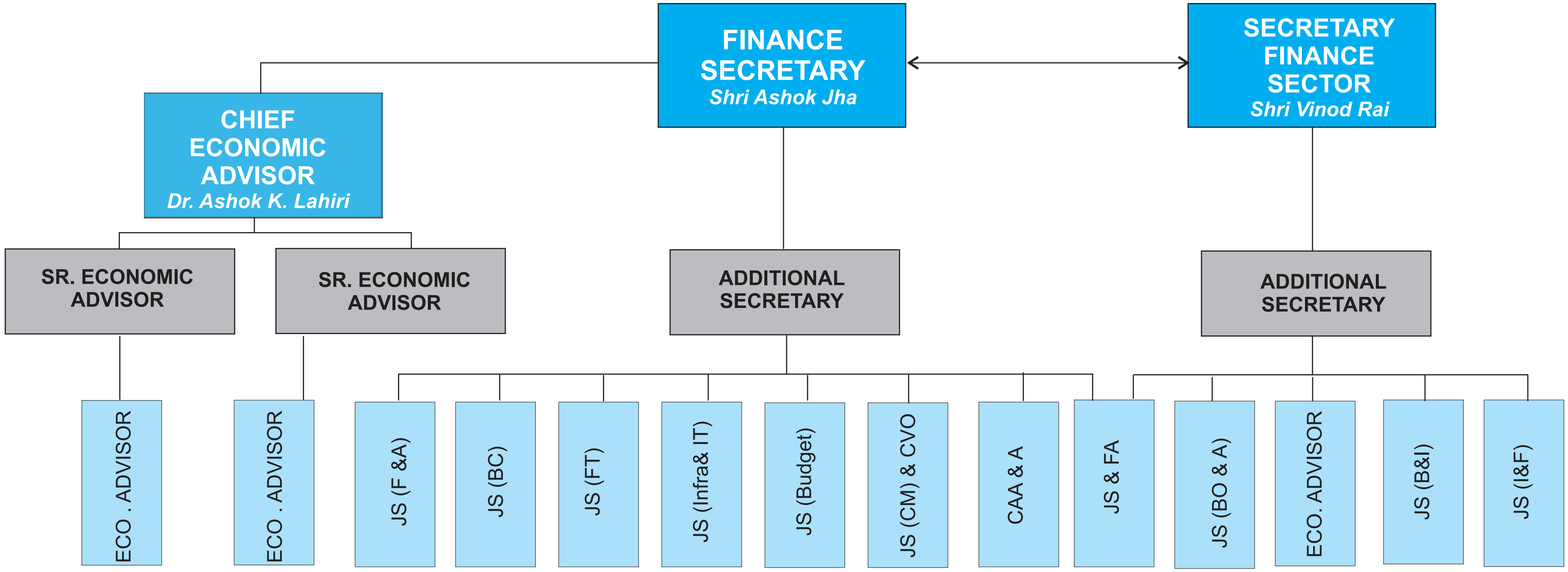
The Detailed Demands for Grants of the Ministry of Finance, covering 75 per cent of the total expenditure of Government of India, along with Schedules and Statements were compiled, printed and presented to Parliament on the stipulated date.

The work relating to Parliament Standing Committee on Finance, which examined the Detailed Demands of Grants 2006-07, i.e. compilation, printing and forwarding of replies to the observations made by the Committee and preparatory work in respect of Oral Evidence were carried out timely with precision.

Statements by FM, as required in terms of Rule 73-A in Lok Sabha and a similar direction by Chairman, Rajya Sabha in Rajya Sabha, in respect of 28^{th}, 29^{th}, 33^{rd}, 36^{th} and 37^{th} Reports of the Standing Committee were laid in both Houses of Parliament in August, 2006 and December, 2006.

With relentless persuasion, twenty six Paragraphs of PAC/ CAG Reports have been settled.

Organisational Setup of Department of Economic Affairs



Legends

Eco. Advisor Economic Adviser
JS (FB&A) Joint Secretary (Fund Bank & Administration
JS (BC) Joint Secretary (Bilateral Cooperation)
JS (FT) Joint Secretary (Foreign Trade)
JS (Infra&IT) Joint Secretary (Infrastructure & Information Technology)
JS (Budget) Joint Secretary (Budget)
JS (CM)&CVO Joint Secretary (Capital Market) & Chief Vigilance Officer
CAA&A Controller of Aid, Accounts & Audit
JS&FA Joint Secretary & Financial Adviser
JS (BO&A) Joint Secretary (Banking Operations & Administration)
JS (B&I) Joint Secretary (Banking & Insurance)
JS (IF) Joint Secretary (Industrial Finance)

Chapter-II

Department of Expenditure

1. Establishment Division

Establishment Division works under Joint Secretary (Pers) and deals with matters like determination of salary structure, and service conditions of all Central Government employees, wage policy determination, revision of pay scales, creation of posts, basic principles of fixation of pay, House Rent Allowance, Travelling/Daily Allowance, Dearness Allowance and various other compensatory allowances in respect of Central Government employees. It is also responsible for administrative matters concerning the Department of Expenditure.

The 6th Central Pay Commission has been set up recently to examine the entire pay structure and other service conditions granted to the Central Government employees vide Resolution dated 5th October, 2006 read with the Resolution dated 7th December, 2006. These resolutions set out the terms of reference of the Commission and also envisage that it shall make its recommendations with 18 months of the date of the constitution of the Commission.

During the year 2006-07, various problems relating to pay matters, arising out of implementation of the recommendations of the 5th Pay Commission or otherwise for Central Government Employees and out of its extension to autonomous body employees (like ICAR/UGC) and legal/ court matters thereon, which were referred from time to time by various Ministries/Departments/ Organizations were addressed in an appropriate manner. Recent proposals have been put on hold in view of the setting up of the 6th Central Pay Commission.

10 per cent cut in posts and abolition of posts lying vacant for more than one year is contemplated (vide Department of Personnel and Training O.M. dated 16.5.2001). Further, restrictions have been placed on filling up of direct recruitment vacancies paneling up to 1/3 of direct recruitment vacancies arising in a year subject to the condition that this does not exceed 1 per cent of the total sanctioned strength of the Ministry/Department. All the posts lying vacant for more than six months in a Ministry/Department and in its attached/ subordinate offices are sought to be reviewed so as to identify posts which can be abolished. This optimization exercise was initially announced for the period of five years i.e. upto 31.3.2006. In consultation with DOPT, this exercise have further been extended for 3 years i.e. upto 31.3.2009.

2. Pay Research Unit (PRU)

The Pay Research Unit was established in1968 and is mainly responsible for collection, compilation and analysis of data on actual expenditure incurred on pay and various types of allowances as well as data pertaining to the strength of the Central Government Civilian Employees and Employees of Union Territory Administration. This unit brings out an annual publication entitled " Brochure on Pay and Allowances of Central Government Civilian Employees". The Brochure provides Statistical information regarding expenditure incurred by the different Ministries /Departments of Central Government on pay & various types of allowances such as Dearness Allowances, House Rent Allowance, Compensatory (City) Allowance, Overtime Allowances etc. in respect of its regular employees. It also provides information on Ministries /Departments-wise and Group-wise number of sanctioned posts and numbers of incumbents in position. The Brochure contains information about disparity ratio i.e. the ratio of the maximum to minimum pay of different State Government Employees. In addition the unit works out financial implications of the proposals of the government and proposals coming before the National Council of JCM etc. **The Unit Brought out the 27th issue of the series of Brochure for the year 2004-2005 in December 2006. The work regarding the Brochure for the year 2005-2006 is in progress.**

Computerization in Department of Expenditure

Upgradation of Local Area Network : Local area network was upgraded in the Department for providing Internet connectivity upto the level of assistants with computers. The WAN connectivity was upgraded to 34 MBPs fiber link through Power Grid Corporation Limited.

Online file tracking system (DMIS) : This system enables monitoring of file and receipt movement.

E-Purti System : This system facilitates on-line requisition of stationery items and keeping record of inventory of these items.

Manpower Management Information System (MMIS) : This system developed for Pay research Unit enables capturing of information related to staff position in various grades and pay and allowances of Govt. employees. It generates various reports contained in PRU brochure brought out annually.

VIP Reference Monitoring System : This system facilitates monitoring of movement and pendency of VIP references in the Department.

Sixth Pay Commission

The Government of India had been considering for some time past the changes that have taken place in the structure of emoluments of Government employees over the years. Conditions have also changed in several respects since the last Pay Commission made its report in 1997. Accordingly, it had been decided to appoint the **Sixth Central Pay Commission** comprising of the following:

Mr. Justice B. N. Srikrishna	Chairman
Prof. Ravindra Dholakia	Member
Mr. J. S. Mathur	Member
Smt. Sushama Nath	Member-Secretary

The constitution of the Sixth CPC was notified on October 5, 2006.The Commission is required to make its recommendations within 18 months from the date of the constitution. The details of Terms of References of Sixth Pay Commission are available on the website. **The Sixth Central Pay Commission is operating from the following address:**

2nd Floor, ICADR Building,
Plot No.6, Vasant Kunj Institutional Area, Phase II
New Delhi-110070.

Policy & Coordination Wing

Policy & Coordination Wing works under the Officer on Special Duty (Policy & Coordination) and is responsible for matters connected with expenditure management, the administration of General Financial Rules and Delegation of Financial Powers Rules; Defence procurements/acquisitions; Committee on Non-plan Expenditure; issues related to contracts/purchases such as Manuals on procurement of Goods, Consultancy & Works, e-procurement; re-appropriation of budgeted provisions for establishment related expenditure; foreign deputation proposals, Parliamentary coordination for Ministry of Finance, Outcome Budget and other expenditure management initiatives under the Fiscal Responsibility and Budget Management Act; Monitoring of implementation of recommendations of the Expenditure Reforms Commission and of Economy instructions on expenditure management; Recommendations of the Public Accounts Committee, which have bearing on general expenditure management; Review of monthly accounts; Overall coordination of implementation of Right to Information Act, 2005; General budgetary coordination in DoE; Scrutiny of Legislative matters and formulation of DoE's comments on proposals to the Cabinet or its committees involving new organizations, legislative proposals or those involving non-Plan expenditure; and Cabinet proposals received in DoE; Accounting issues; Annual Report of the Department; Reports/returns concerning DoE; DoE's representation in various committees and autonomous bodies; policy issues and proposals for Cabinet/Group of Ministers/Committee of Secretaries, which are not specifically dealt with in any other wing/division in the Department.

Suitable instructions keeping in view the fiscal situation are issued from time to time to all the Ministries/Departments with a view to contain non-Plan, non-developmental expenditure, reduce deficits and improve financial discipline. Detailed guidelines on "Expenditure Management – Economy Measures, Rationalization of Expenditure and Measures for Augmentation of Revenues were issued on July 22, 2006. Further guidelines for release of funds, utilization certificates & clarifications regarding consultancy services, grants-in-aid and advertisement & publicity were issued on 8 August, 2006, 30 October, 2006 and 7 December, 2006 respectively. Guidelines for preparation of Outcome Budget and merger of performance budget in the Outcome Budget, its stage of coverage, elaboration of outcomes, outlays and outputs, was issued on 12 December, 2006. On introduction of mandatory e-procurement, a detailed advisory was issued on January 10, 2007. Specifically, it is contemplated that in respect of all goods covered under the rate contracts concluded by the Director General (Supplies and Disposal), the Ministries should commence placing orders through the website of DGS&D as soon as feasible and this practice would become mandatory for supply orders to be placed w.e.f. April 1, 2007

After a comprehensive and extensive review of the existing norms and procedures, the Manuals on Policies and Procedures of Goods, Works and Consultancy have been issued to all the Ministries/Departments for general guidance in executing Works and employing Consultants in a cost effective, competitive and transparent manner.

Besides prompting the Ministries to review extant arrangements and improvise internal audit system, the Comptroller and Auditor General was requested to constitute a Task Force to benchmark the status of internal audit and suggest roadmap of reforms in this area. The Report of the Task Force has been received and follow up action is in hand.

Integrated Finance Unit

The Integrated Finance Unit works under Joint Secretary and Financial Adviser (Finance) and deals with the expenditure and Budget related proposals under Demand No. 38 – Department of Expenditure which includes Secretarial General Services and Other Administrative Services like INGAF, NIFM, Sixth CPC etc. The allocations under Demand No. 38 – Department of Expenditure are as under:

(Rs. crore)

Budget Estimates 2006-07			Revised Estimates 2006-07		
Plan	Non-Plan	Total	Plan	Non-Plan	Total
0.63	28.82	29.45	0.63	36.00	36.63

This unit is responsible for monitoring and control over expenditure of the Department and implementing the economy instructions for compliance by various organizations of the Department.

3. Plan Finance-I Division

Plan Finance-I Division deals with the matter relating to finances and plan outlays of the States with close coordination with the Planning Commission, releases funds to States Governments for implementing developmental work in the States, clearance of overdrafts of States. It monitors the Ways & Means and Resources position of States and takes timely action to advise the States to take appropriate measures whenever get into Ways & Means problems. Issues relating to calamity relief to states are also being handled in this division. In this connection, the division formulates the schemes as recommended by the Finance Commission from time to time and releases funds on the advise of the Ministry of Agriculture and Ministry of Home Affairs. This division is also handling the matters relating to Centre-State and Inter-State financial relation and provides inputs for Inter-State Council, Zonal Council and North Eastern Council.

Apart from the items listed above this division handles a number of miscellaneous issues, which have a bearing on states finances such as items relating to the internal security for States, power reform issues, debt/borrowing issues and guarantees.

4. State Plan Schemes

There are various State Plan Schemes under which the funds are provided to the State Governments for implementation of developmental schemes. Apart from, normal releases being made to the State Government under various regular schemes under plan, such as Normal Central Assistance, Additional Central Assistance for Externally Aided Projects, Grants for Border Area Development Programme and Hill Area Development Programme, the funds under new schemes are being provided to the State Governments under State Plan. Allocation and release position of the various State Plan Schemes for the year 2005-06 and 2006-07 are at **Annexure**. The scheme-wise brief in respect of each programme is as under:

National Social Assistance Programme (NSAP) and Annapurna Schemes

National Social Assistance Programme was launched in August, 1995 as a 100 per cent Centrally Sponsored Scheme with social aim to provide Social assistance benefits to poor households in the case of old age, death of primary bread earner and during maternity. The programme was initiated to supplement the efforts of the State Governments towards achieving the objective of ensuring minimum national level of well being and the Central assistance was in addition to the benefit the States were already providing on Social Protection Scheme. In addition to this, the Annapurna Scheme was launched on 1.4.2000 for those Senior Citizens who were left uncovered earlier.

Scheme can be got implemented by involving Panchayati Raj Institutions at Panchayat & District level for identification of beneficiaries under the three schemes of NSAP. The disbursal of funds under the scheme can be made through the account of the beneficiary in Banks or post office savings banks or through postal money order. The disbursement can also be made in public meetings such as Gram Sabha meetings in rural areas by Neighbourhood/Mohalla Committees in urban areas. The monitoring can also be made through Panchayats & Municipalities by following up delays in sanction & disbursement. Additional Central Assistance as 100 per cent grant is being released to the State Governments by Ministry of Finance on the recommendation of the Ministry of Rural Development. The disbursal of funds under the scheme can be made through the account of the beneficiary in Banks or post office savings banks or through postal money order. The disbursement can also be made in public meetings such as Gram Sabha meetings in rural areas and by Neighbourhood/ Mohalla Committees in urban areas. Based on the recommendations of M/o Rural Development an amount of Rs.1557.49 crore has been released to the State Governments during 2006-07 (so far).

Special Central Assistance/Special Plan Assistance

Apart from Normal Central Assistance and scheme specific Additional Central Assistance; Special Central Assistance/ Plan assistance to meet the gap in resources for financing of Annual Plan is also allocated by the Planning Commission to some States especially those falling under special category States. The assistance is not tied with any particular scheme and is released by the Ministry of Finance on the pattern of Normal Central Assistance. Normally, the SCA/SPA allocated by the Planning Commission forms part of Gross Budgetary Support (GBS). However, in exceptional cases, additional allocation is also made with the concurrence of Ministry of Finance. The release position is **annexed.**

Development and Reform Facility (Rashtriya Sam Vikas Yojana)

The Development and Reform Facility (later renamed as Rashtriya Sam Vikas Yojana) was proposed in Budget 2002-03 with an outlay of Rs.2500 crore with the main objective of putting in place programmes and policies with the joint efforts of the Centre and the States, which would remove barriers to growth, accelerate the development process and improve the quality of life of the people. The scheme has three components, namely, (i) Special Plan for Bihar; (ii) Special Plan for the undivided Kalahandi – Bolangir – Koraput (KBK) districts of Orissa; and (iii) Backward Districts Initiative. Backward Districts Initiative for removing the developmental imbalances in selected most backward districts in the States have been approved by the Government.

Special Plan for Bihar

Under this component, funding will be provided for prioritized sectors, namely, power, rural connectivity, irrigation, integrated watershed development, integrated community based forest management, development schemes for horticulture, dairying, aquaculture, development of remote sensing and other data on GIS platform, etc. The release position is **annexed.**

Special Plan for undivided Kalahandi-Bolangir-Koraput districts of Orissa

The Special Plan focuses on tackling the main problems of drought proofing, livelihood support, connectivity, health, education, etc. as per local priorities. Special Central Assistance as 100 per cent grant is being provided under this scheme. The release position is **annexed.**

Backward Districts Initiative (BDI)

Presently 147 districts are covered under this component of RSVY. The identification of backward districts within a State has been made on the basis of an index of backwardness comprising four parameters with equal weights to each: (i) value of output per agricultural worker; (ii) agriculture wage rate; (iii) percentage of SC/ST population of the districts and iv) Extremist affected districts in various states of the country. The main objectives of the scheme are to address the problems of low agricultural productivity, unemployment, to combat backwardness in the districts facing extremist activities over a period of time, and to fill critical gaps in physical and social infrastructure. Under the scheme Rs.45 crore has been allocated to each of the backward district in the Tenth Plan. The total amount is to be released in three years i.e. @ Rs. 15 crore each year to each of the identified backward district. The funds under the scheme is provided under ACA as 100 per cent grant.

Backward Regions Grant Fund

The Finance Minister, in his Budget Speech for 2006-07, had announced the establishment of Backward Regions Grant Fund (BRGF) for which an allocation of Rs. 5000 crore had been made for the year 2006-07. This scheme, however, could not be approved during 2005-06. The Backward Regions Grant Fund has been approved during the current financial year replacing the Rashtriya Sam Vikas Yojana. The decisions taken with regard to the BRGF are as under:

(i) The BRGF would consist of two components, namely, (a) Districts Component covering 250 districts, and (b) Special Plans for Bihar and the KBK districts of Orissa.

(ii) The implementing Ministry for the BRGF districts would be the Ministry of Panchayati Raj. This Ministry would lay down the guidelines for implementation of the BRGF in consultation with the Planning Commission. The Planning Commission would play the role of adviser and monitor the progress of the scheme.

(iii) In the Eleventh Plan, a provision of Rs.1000 crore per annum would be made for the Special Plan for Bihar. A total of Rs. 250 crore will be provided for the KBK districts, including funds under the BRGF district norms and the KBK Special Plan.

(iv) Districts where RSVY is continuing will receive funds as per RSVY norms till an amount of Rs.45 crore (plus the existing monitoring fee) is released to each district after which these districts will shift to the BRGF's standard mode of funding i.e. a fixed amount of Rs.10 crore per district per year and the remaining amount on equal weightage for area and population.

(v) An additional amount of Rs. 250 crore per year would be provided for capacity building, preparation of district / block / village plans, training / acquisition of technical inputs / monitoring.

(vi) Funds under the BRGF would be allocated as Additional Central Assistance on 100 per cent grant basis to be met out of Central assistance for State Plans as part of the Annual Plans of the States.

(vii) Assistance to the new programme would be made available during 2006-07 and during the Eleventh Plan period.

(viii) Budget provision for the Districts Component of the BRGF would be made in the Demand for Grants of the Ministry of Panchayati Raj. The funds for the Special Plans for Bihar and the KBK districts of Orissa would continue to be provided in the Demands of the Ministry of Finance.

Accelerated Irrigation Benefits Programme (AIBP)

Accelerated Irrigation Benefits Programme (AIBP) was launched during 1996-97 to provide Central Loan Assistance (CLA) to States for accelerating the implementation of large and multi purpose projects, where substantial progress had been made but was beyond the resource capability of the States.

Pattern of funding is Central grant equivalent to 90 per cent of project cost in case of Special Category States, projects benefiting drought prone area, tribal area and flood prone area; and 25 per cent of project cost in case of Non-Special Category States. The balance cost of the project being State's share is to be arranged by the State Government from its own resources.

Till March, 2004, total Rs.14700 crore had been made available to States under the scheme. During the year 2004-05, grant component was also introduced under the scheme and Central Assistance of Rs.2867.34 crore released as per NCA pattern. However, as per the recommendations of Twelfth Finance Commission (TFC), the loan component has been discontinued w.e.f. 01.04.2005 and the States have been asked to raise the loan requirement of funds under the scheme from the market. Total grant of Rs.2054.45 crore was released during 2005-06. Based on the recommendations of M/o Water Resources an amount of Rs.1266.96 crore has been released to the State Governments during 2006-07 (so far).

Accelerated Power Development Programme (APDRP):

The scheme was approved in the year 2000-01 and was named Accelerated Power Development Programme (APDP). The Scheme is envisaged mainly to finance projects relating to Renovation & Modernization/ Life Extension/ Upgrading of old power plants both thermal and hydel; and to upgrade sub-transmission & distribution network. (below 33 KV or 66KV) including energy accounting & metering.

The funding of projects was in the ratio of 90 per cent grant & 10 per cent loan to special category States and 50 per cent grant & 50 per cent loan for non-special category States. The non-special category States were to manage 50 per cent of their share of project cost though internal resources or by way of loans from PFC/REC/FIs/Suppliers Credit.

In June, 2003 the Govt. had approved modification of APDP Scheme and renamed the ongoing scheme as Accelerated Power Development Reforms Programme (APDRP). The main focus of modified scheme is Upgradation of Sub-Transmission and Distribution in densely electrified zones in the urban & industrialized areas and improvement in commercial viability of State Electricity Boards. Based on the recommendations of M/o Power an amount of Rs.494.07 crore has been released to the State Governments during 2006-07 (so far).

(a) Investment Component:

Central budgetary support is given for strengthening and upgradation of the sub-transmission and distribution system. Special Category States get 90 per cent of approved expenditure as Central grants while other States get 25 per cent grant. Remaining resources have to be raised by the States.

(b) Incentive Component:

Grants are given to States to the extent of 50 per cent of the actual reduction in cash loss (from the base year of 2000-01) by SEBs/Utilities. Losses are calculated as net of subsidy and revenue will be calculated on net realization basis only. The accounts would be audited through CAG or relevant statutory auditor for arriving at a total loss. The incentive grant is to be utilized in improvement of Power Sector alone.

Jawaharlal Nehru National Urban Renewal Mission (JNNURM)

To provide focused attention to integrated development of infrastructural services in identified cities; "Jawaharlal Nehru National Urban Renewal Mission (JNNURM)" has been launched by the Hon'ble Prime Minister of India on 3rd Decemeber,2005. Ministry of Urban Development will be implementing Sub-Mission on Urban Infrastructure and Governance of the Mission; and Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT). The Mission aims to ensure:

- Effective linkages between asset creation and asset management so that the infrastructural services created in the cities are not only maintained efficiently but also become self-sustaining over time.
- Ensure adequate investment of funds to fulfill deficiencies in the urban infrastructural services.
- Planned development of identified cities including peri urban areas, out growths, urban corridors, so that urbanization takes place in a dispersed manner.
- Scale up delivery of civic amenities and provision of utilities with emphasis on universal access to urban poor.
- To take up urban renewal programme, i.e. re-development of inner (old) cities area to reduce congestion.

The duration of the Mission would be seven years beginning from 2005-06. During this period, the Mission will seek to ensure sustainable development of select cities. An evaluation of the experience of implementation of the Mission would be undertaken before the commencement of Eleventh Five-Year Plan and if necessary, the programme calibrated suitably. Additional Central assistance under the Scheme will be released by Ministry of Finance in the form of 100 per cent grant. Based on the recommendations of M/o Urban Development an amount of Rs.1976.83 crore has been released to the State Governments during 2006-07 (so far).

5. Finance Commission Division

Finance Commission Division undertakes processing of and follow up action on the various recommendations and suggestions of Finance Commission's reports including issue of Presidential/Executive Orders and sanctions. Under Article 280 of the constitution, a Finance Commission is to be constituted every fifth year or at such earlier time as a President directs on specified aspects of Centre-State Fiscal relations. The recommendations of the Commission together with an Explanatory Memorandum as to the action taken thereon, are laid before each House of Parliament.

The 12th Finance Commission was constituted by the President on 1st November 2002 under the Chairmanship of Dr. C. Rangarajan. The Commission submitted its report for 2005-10, covering all aspects of its original mandate on December 17. 2004. The main report along with explanatory memorandum was laid on the table of both the houses of Parliament on 26th February 2005. The Government accepted the recommendations of the Commission regarding scheme of debt relief to states, devolution of shares of Central, Taxes and Duties, Grants in Aid to cover non plan gap on revenue account, Grants-in-Aid for education, health, maintenance of roads and bridges and public buildings, maintenance of forest, heritage conservation and State specific needs, grants to states for financing local bodies and financing of calamity relief expenditure.

Major highlights of Twelfth Finance Commission (TFC) recommendations that cover the period 2005-10 are as follows:

- Twelfth Finance Commission (TFC) has recommended that 30.5 per cent of the divisible pool of gross tax revenue of the Central Government shall be distributed amongst States during 2005-10 (as against 29.5 per cent during 2000-05).

Annexure

As on 19.02.2007

The various types of assistance allocated to the State Governments and released during 2006-07 are as under:-

(Rs. crore)

Sl. No.	Items/Schemes	Allocation for at the (BE) 2006-07	Amount released during 2006-07 (so far)
A.	Plan Assistance		
1.	Normal Central Assistance	10916.61	13769.61
2.	Addl. Central Assistance for Externally Aided Projects	4697.00	6151.41
3.	Special Plan Assistance	2160.00	1108.73
4.	Special Central Assistance	0.00	576.30
5.	Addl. Central Assistance for other /Projects	0.00	43.73
6.	Nutrition Programme for Adolescent Girls (NPAG)	162.77	63.37
7.	Accelerated Power Development Reform Programme (APDRP)	650.00	494.07
8.	Accelerated Irrigation Benefit Programme (AIBP) and other water related programme	2350.00	1266.96
9.	National Social Assistance Programme including Annapurna (NSAP)	1430.97	1557.49
10.	Central assistance for Hill Areas/Western Ghats Development Programme	225.00	154.69
11.	Special Central Assistance for Border Areas Development Programme (BADP)	520.00	446.75
12.	Central assistance for Backward Area Grant Fund (State Component)	1250.00	396.00
13.	**National E. Governance Action Plan (NEGAP)**	300.00	106.76
14.	**ACA for Jawaharlal Nehru National Urban Renewal Mission**	0.00	0.00
	(i) Sub Mission on Urban Infrastructure and Governance (SMUIG)	2287.15	895.35
	(ii) Urban Infrastructure development for Small and Medium Towns (UIDSSMT)	900.00	528.98
	(iii) Sub Mission on Basic Services to Urban Poor (SMBSUP)	908.78	552.50
	(iv) Integrated Housing and Slum Development (IHSDP)	500.00	0.00
15.	T Sunami Rehabilitation Programme (TRP)	304.00	16.77
	Total (A)	**29562.28**	**28129.47**

- The 12th Finance Commission has recommended a total transfer of Rs.**7,55,751.62 crore** (share in central taxes and duties Rs. 6,13,112.02 crore + Grants-in-aid Rs. **1,42,639.60 crore**) to States during 2005-10 as against Rs.**4,40,209.26 crore** (Rs. 3,76,318.01 crore as share in central taxes and duties + Rs. 58,587.39 crore as grant-in-aid + Rs.5,303.86 crore as Centre's share of Incentive Fund) by 11th Finance Commission for the five years period 2000-05, showing an **increase of 71.68 per cent over TFC award** period.
- Under debt consolidation, the Central loan to States contracted till 31.03.2004 and outstanding on 31.03.2005 (amounting to Rs.1,28,795 crore) may be consolidated and rescheduled for a fresh term of 20 years (resulting in repayment in 20 equal instalments), and an interest rate of 7.5 per cent be charged on them. This will be subject to the State enacting the fiscal responsibility legislation and will take effect prospectively from the year in which such legislation is enacted.
- Cumulative relief on interest payments and lower repayment upon consolidation, reschedulement and lowering of interest rate to 7.5 per cent on during the award period for all the States put together, works out to Rs.21,276 crore in interest payments and Rs.11,929 crore in repayments.
- Under the debt write-off scheme, the repayments due from 2005-06 to 2009-10 on central loans contracted up to 31.3.2004 and recommended to be consolidated will be eligible for write off. The quantum of write off of repayment will be linked to the absolute amount by which the revenue deficit is reduced in each successive year during the award period. Total amount eligible for write-off for all State over five years period is Rs.32198.69 crore. The enactment of the fiscal responsibility legislation would be a necessary pre-condition for availing the debt relief under this scheme also with the benefit accruing prospectively.
- Twelfth Finance Commission in its report recommended that system of imposing 70:30 ratio between loans and grants in case of Non-Special Category States and 10:90 ratio between loan and grant in case of Special Category States for extending Plan Assistance should be done away with. Instead, the Planning Commission should confine itself to extending plan grants to the States and leave it to the States to decide how much they wish to borrow and from whom i.e. from the Centre or from open market. This has been effective from 01.04.2005. if some fiscally week States are unable to raise funds from the market, the Centre could borrow for the purpose of on lending to such States with the condition that the interest rates should remain aligned to the marginal cost of borrowing for the center. The recommendation was accepted by the GOI and consequently no provision for the loan component of States was made in BE 2005-06.

The main functions of Finance Commission Division are :

- To implement recommendations of the Finance Commission on Debt Consolidation and Relief Facility Scheme, grants- in –aid to States and also take follow-up action on other recommendations of the Commissions.
- To release grants- in –aid to States as per the guidelines of Finance Commissions viz. Non-Plan Revenue Deficit Grants and under the specific sectors such as , education, Health, Roads & Bridges, Public Buildings, Forest, Heritage Conservation, Specific needs of the States and Local Bodies (both Urban and Rural Local Bodies).
- To monitor and evaluate the utilization of Grants-in-aid released to States
- Policy issues connected with financing the expenditure for relief of natural calamities in the States.
- To make 'on account' release from National Calamity Contingency Fund (NCCF) on the recommendations of Ministry of Home Affairs and to release assistance to States from NCCF based on the recommendations of the High Level Committee, which are conveyed to this Division by Ministry of Home Affairs.
- Matters pertaining to assessment of damages caused by natural calamities and release of grants from Calamity Relief Fund as recommended by Finance Commission for the purpose.
- To preserve the records of the previous Commission and take such necessary action to obtain further information which might be of use to the future Finance Commissions.

State Level Reforms

The need for fiscal adjustment has not only been recognized by States, but they have also been taking a number of pro-active steps including enactment of their Fiscal Responsibility and Budget Management Act (FRBMA), and introduction of a monthly cash flow system aimed at improving their financial position. Though, the Twelfth Finance Commission's recommendations require States to enact their FRBMAs to claim the benefits under the Debt Waiver and Relief Facility, a few States had already enacted their FRBMAs prior to the recommendations of TFC.

TFC's Debt Consolidation and Relief Facility (DCRF) has a two- stage benefits for incentives the States, as detailed below:

a) A general scheme of debt relief applicable to all States, prospectively, from the year in which they enact FRBMAs. The above scheme provides for consolidation of central loans (Ministry of Finance) contracted by States till 31.3.2004 and outstanding as on 31.3.2005 for a fresh term of 20 years at an interest rate of 7.5 per cent.

b) A Debt Write-off scheme (after consolidation of central loans) linked to fiscal performance, subject to following conditions:

- Enactment of FRBMA (required, in any case for Debt Consolidation),
- Reduction of Revenue Deficit every year starting from 2004-05, when compared to the average of preceding 3 years (i.e., 2001-02, 2002-03 & 2003-04), which forms the base year 2003-04. In the process, if revenue deficit is eliminated completely by 2008-09, the State gets full benefit of the waiver,
- Reduction in Revenue Deficit should be equal to the at least the interest rate relief on account of consolidation, and
- Containing Fiscal Deficit/GSDP ratio at the 2004-05 levels in all the subsequent years.

Under Debt write-off scheme, repayments falling due during the period 2005-06 to 2009-10 on the consolidation of the Central loans, would become eligible for write-off. The quantum of write-off will be linked to the absolute amount by which revenue deficit is reduced in each successive years, during the award period.

TFC has estimated that the debt relief during its award period (2005-10) for all States would be Rs.21,276 crore, in interest payments and Rs.11,929 crore in repayments of consolidated Central loans. If all the States eliminate Revenue Deficit in 2008-09, the amount of Debt Waiver that would be written-off to the States is around Rs.32,200 crore.

To traverse a credible path to eliminate the revenue deficit to zero by 2008-09 and bring down the fiscal deficit to 3 per cent of GSDP and achieve other targets of TFC, States are required to draw-up their own “Fiscal Correction Path”, which is but a natural corollary to the recommendations of TFC.

Based on these recommendations, detailed guidelines have been formulated and have been circulated to States. So far, 24 States had enacted their Fiscal Responsibility Legislation and 22 States had drawn up their fiscal correction path. A Central Monitoring Committee, set up for this purpose, has recommended Debt Consolidation for 19 States namely, Andhra Pradesh, Assam, Bihar, Chhatisgarh, Gujarat, Haryana, Himachal Pradesh, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Manipur, Orissa, Punjab, Rajasthan, Tamil Nadu, Tripura, Uttaranchal and Uttar Pradesh. CCA has also consolidated central loans in respect of these States. Out of 19 States, 6 States namely, Assam, Bihar, Kerala, Maharashtra, Tripura and Uttaranchal were not found eligible for debt waiver for 2005-06. In case of 13 States amount of debt waiver is estimated at Rs. 3,856 crore.

There has been a steady improvement in the aggregate revenue and fiscal deficit of all States. Ratio of RD to GDP has come down from 2.30 per cent in 2002-03 to 0.19 per cent in 2006-07(BE) and the ratio of FD to GDP has come down from 3.96 per cent in 2002-03 to 2.72 per cent in 2006-07(BE). Similarly, the ratio of interest payments to GDP has come down from 2.93 per cent in 2003-04 to 2.50 per cent in 2006-07(BE). There are clear signs of the States regaining lost fiscal ground as evident from reduction of absolute revenue deficit from Rs.63916 crore in 2003-04 to Rs. 7503 crore in 2006-07(BE) and the ratio of RD to FD has come from 65.53 per cent in 2001-02 to 7.09 per cent in 2006-07(BE).

Devolution of shares in Central Taxes and Duties

As per the Constitution, a prescribed percentage of net receipts of all Central Taxes (except Union surcharge, cess levied for specific purpose under any law made by Parliament and the Duties referred to an Article 268 and 269 is to be assigned to the states within which that tax is leviable in that year and distributed among those states for the period of five years commencing from 1st April 2005, the Commission has recommended that 30.5 per cent of the net receipts of shareable Central Taxes may be distributed among all such states where in central tax is leviable.

Grants-in-Aids to States under the provisions of Article 275 of the Constitution

1. Grants-in-Aid to cover the Non-Plan Gap on Revenue Account:

TFC has assessed non-plan revenue deficit of the States on a normative basis to ensure that deficiency in fiscal capacity is corrected by the States, but inadequate revenue effort or excessive expenditure is not encouraged.

The 12th Finance Commission recommended non-plan revenue deficit grant amounting to Rs.56,855.87 crore to 15 States equal to the amount of deficit assessed for each year during the period 2005-10. The revenue deficit grant recommended and released for 2005-06 is Rs.15091.86 crore and recommended for 2006-07 is Rs.11315.21 crore to be released to the states during the current year against which Rs.9429.40 crore has been released up to 8.1.2007.

Grants in Aid for Education and Health Sector:

TFC has recommended grants to States, using equalisation principle on the expenditure side, for education and health. The States adjusted for their expenditure preference, spending less than group average have been provided grants-in-aid to cover 15 per cent of the distance.

The Finance Commission has recommended grants for the period 2005-10 under education sector to eight states amounting to Rs.10,171.65 crore and under health sector to seven States amounting to Rs.5887.08 crore. These Grants-in-Aid are released subject to the fulfillment of conditions laid down by the 12th Finance Commission.

Under Education sector grants amounting to Rs.1653.78 crore released in 2005-06 and Rs.1496.90 crore in 2006-07 and under health sector grants amounting to Rs.938 crore released in 2005-06 and Rs.851.43 crore in 2006-07 up to 8.1.2007.

Grants for maintenance of roads and bridges, public buildings and forests:

The 12th Finance Commission recommended grants separately for maintenance of roads and bridges, maintenance of buildings and forests as under :

(i) Adopting the norms for plains and hilly areas furnished by the Ministry of Road, Transport and Highways for maintenance of roads and bridges and after applying adjustment factors, a grant of Rs.15,000.00 crore has been recommended for maintenance of roads and bridges for the period 2006-10. Under this sector grants amounting to Rs.2976.55 crore were released to States during 2006-07 upto 8.1.2007.

(ii) An amount of Rs. 5000 crore is recommended as grants for maintenance of public Buildings from 2006-10. Under this sector grants amounting to Rs.805.99 crore were released to States during 2006-07 upto 8.1.2007.

(iii) For maintenance of forests, grant of Rs.1000 crore spread over the award period 2005-10 has been recommended by the Commission. Grant recommended for 2005-06 is Rs.200 crore. Under this sector an amount of Rs.179 crore released in 2005-06 and Rs.156.50 crore has been released to States during 2006-07 upto 8th January 2007. The maintenance grants are an additionality over and above normal maintenance expenditure to be incurred by the State. These grants are to be released and spent in accordance with certain conditionalities specified by the Commission.

Grants for heritage Conservation :

For heritage conservation, the Finance Commission has recommended grant of Rs.625 crore for an award period of 2005-10. This grant will be used for preservation and protection of historical monuments, archeological sites, public libraries, museums and archieves and also for improving tourist infrastructure to facilitate visit to these sites. Under this sector an amount of Rs.122.23 crore has been released to States during 2006-07 upto 8th January 2007.

Grants for specific needs:

The grants recommended by the 12th Finance Commission for 'specific needs' of the States is on the pattern of the grant recommended by the 11th Finance Commission for the special problems of the States. The 12th Finance Commisson has recommended an amount of Rs.7,100 crore as grants for States specific needs. Under this sector an amount of Rs.10 crore was released in 2005-06 and Rs. 825.32 crore has been released to States during 2006-07 upto 8th January 2007.

Grants for Local Bodies:

The 12th Finance Commission has recommended an amount of Rs.25,000 crore for the period 2005-10 as Grants-in-Aid to augment the consolidated funds of the states to supplement the resources of the municipalities and the panchayats out of this Rs.20000 crore is for PRIs and Rs.5000 crore is for Urban Local Bodies. Grant recommended for 2005-06 is Rs.5000 crore. Under this sector an amount of Rs.3641.38 crore were released in 2005-06 and Rs.3395.49 crore has been released to States during 2006-07 upto 8th January 2007.

Calamity Relief Fund and National Calamity Contingency Fund

The 12th Finance Commission has recommended the continuation of the scheme of calamity relief fund in its present form with contribution from the Centre and the States in the ratio of 75: 25. The size of the CRF for the period 2005-10 is worked out at Rs.21,333.33 crore. The Commission has also recommended continuation of the scheme of NCCF in its present form with core corpus of Rs.500 crore. The outgo from the fund may continue to be replenished by way of collection of National Calamity Contingent Duty and levy of special surcharges. Out of the Centre's share of CRF of Rs.2,958.32 crore, a sum of Rs. 2,622.94 crore was released in 2005-06 and out of Rs.3,073.34 crore for the year 2006-07 a sum of Rs.2,995.93 crore was released to the States upto 8.1.2007. Out of the NCCF, central assistance of Rs.3,061 .44 was released in 2005-06 and Rs. 1962.05 crore has been released to the States during the year 2006-07 (up to 8.1.2007), towards calamities of rare severity.

As a measure to further improve fiscal transparency, the PF-I Division and O/o Controller of Accounts (Finance) have collaborated on "State Loan Data Release Initiative". A web enabled module was developed to enable dissemination of information on releases to States made by the Department, the repayments made by the States, defaults and outstanding balances in respect of loans, grants and investments. Each State Government is now enabled to view:

- Its entire portfolio of Ministry of Finance transfers on the website, including detailed reports on the monthly releases made to them (scheme-wise/State-wise).
- Scheduled repayments for the entire year (month-wise/ loan-wise).
- Actual repayments vis-à-vis their scheduled repayments.
- Prepayments effected by them under the Debt Swap Scheme.
- Outstanding balances (rate of interest-wise/loan-wise) on a year to year basis.
- Download, in PDF format, copies of sanctions and IG Advices.

Fully verified and reconciled data is available on the website application from the financial year 2004-05 onwards.

6. Plan Finance - II Division

Plan Finance-II Division works under Joint Secretary (PF-II) and is primarily concerned with matters relating to the Central Plan and Central Public Sector Undertakings. The Division serves as a window within the Finance Ministry, which has an overview of the entire canvas of development activity of the Central Government, both at the project level and sectoral policy level. In respect of development schemes and projects, the focus has been on improving the quality of development expenditure through better project formulation, emphasis on outputs, deliverables, impact assessment, projectisation (Mission approach) and convergence.

Guidelines for Formulation, Appraisal and Approval of Government funded Plan schemes/projects have been issued vide O.M. No.1(2)/PF.II/03 dated 7.5.2003. Accordingly to these guidelines, which are in force w.e.f. 1.7.2003, Ministries/ Departments are required to prepare Feasibility Report (FR) for obtaining 'in-principle' approval of Planning Commission and a Detailed Project Report (DPR)s for appraisal of the scheme/project in respect of all Plan Schemes/Projects costing Rs.50 crore or more.

Plan Finance-II is the Secretariat for the Public Investment Board (PIB). The PIB considers investment proposals of Central Government Ministries in regard to their Public Sector Undertakings. Under the existing guidelines, Central Sector Projects costing Rs.200 crore and above are considered by PIB. Secretary (Expenditure) is the Chairman of the PIB and Joint Secretary (Plan Finance-II) acts as the Secretary to the Board. Plan Finance-II Division is also the focal point for delegation of financial powers to Expenditure Finance Committees (EFCs) and Standing Finance Committees (SFCs).

During the period 1.1.2006 to 31.12.2006, 49 meetings of the Expenditure Finance Committee (EFC) chaired by Secretary (Expenditure) considered Plan investment proposals/schemes of various Ministries/Departments costing Rs.47,763.45 crore. Also 15 meetings of Public Investment Board (PIB) were held and 27 projects with a capital outlay of Rs.28,606.20 crore were recommended for approval of competent authority. The Ministry/Department wise position of projects considered by PIB in the Table given below.

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

7. Staff Inspection Unit

The Staff Inspection Unit (SIU) functions under the supervision of the Chief Controller of Accounts (Finance). It was set up in 1964 with the objective of securing economy in the staffing of Government organizations consistent with administrative efficiency and evolving performance standards and work norms. The Scientific and Technical Organisations are not within the purview of the SIU but a Committee constituted by the Head of Department, with a representative from SIU as a Core Member, conducts staffing studies of such organisations.

In the changed scenario and keeping in view the Government emphasis on better governance and improved delivery of services; the role of SIU has been re-defined. The SIU has been positioned to act as catalyst in assisting the line Ministries and Autonomous Organizations in improving their organizational effectiveness. As per the new mandate, SIU would now conduct the studies of Organizational Analysis primarily to cover the areas of Organizational System, Financial Management System, Delivery System, Client-Customer satisfaction, Employees concerns etc. and to suggest ideal organizational structure, re-engineering of processes, optimum utilization of resources and overcome the delays besides exploring the possibilities of outsourcing some of the activities with a view to achieve enhanced output/ effectiveness with the minimum expenditure.

During the year 2006, SIU issued 14 final reports covering 5734 sanctioned posts besides 1 Norms Study on the requirement of Investigating Officers for trial cases in the Central Bureau of Investigation. After the detailed studies, the SIU identified 1403 surplus posts out of the sanctioned strength of 5734 posts. The staffing studies have resulted in an economy of Rs.24.24 crore p.a. In addition, provisional reports on 6 staffing studies with a total coverage of 1098 posts and 1 Norms Study of Immigration Check Posts of the Ministry of Home Affairs were also issued during the year.

The SIU has also undertaken the Institutional Reforms–Cum–Work Measurement Study of the Ministry of Company Affairs on 'priority basis' during the year.

Ministry/Department wise position of projects considered by PIB

S.No.	Ministry/Department	No. of projects recommended for approval	Cost(Rs. crore)
1.	Ministry of Power	11	2,0679.00
2.	Department of Coal	8	3,428.90
3.	Ministry of Civil Aviation	3	716.13
4.	Department of Road Transport & Highways	1	1,066.77
5.	Department of Shipping	3	2,228.40
6.	Department of Heavy Industry	1	487.00
	Total	27	28,606.20

8. Chief Adviser Cost Office

Office of Chief Adviser Cost (CAC) is one of divisions functioning in the Department of Expenditure and a professional agency staffed by Cost/Chartered Accountants, who are members of the Indian Cost Accounts Service, one of the six Central Accounting services of the country. It was set up as an independent agency of the Central Government to verify the cost of production and to determine the fair selling price for Government purchases including defence purchases. The role of the office was further enlarged and extended to fixing prices for a number of products covered under the Essential Commodities Act, such as, Petroleum, Steel, Coal, Cement, etc. under the Administered Price Mechanism (APM). Since cost/pricing work in the Ministries increased significantly, various other Ministries/Departments started to have their in house expertise for routine work and need for experts in cost/commercial accounts was also felt in these Ministries. As a repository of expertise in cost, management and financial accountancy in government, it is rendering professional assistance to different Ministries and Government agencies. In the Post liberalization era, the office is receiving and conducting studies in synchronization with the liberalization policy of the Government in addition to the traditional areas of cost-price and escalation studies. The officers of the CAC ventured into new areas and are conducting studies having greater relevance to the changing situation.

Chief Adviser Cost Office, as a repository of expertise in Cost and Management Accounting matters over the years had emerged as a prime professional agency in dealing with matters relating to Financial Management, Capital Restructuring, appraisal of capital intensive projects, Rehabilitation Projects, profitability projections, application of modern management tools towards evolving and effecting sound working capital management policies etc. The role of the office has got enlarged post liberalisation period when cost efficiency studies and the pricing under dynamic situations have become star areas of intervention besides diverse references are emerging from various Ministries/ Departments arising out of problems faced by them in their day to day working. Chief Adviser Cost Office is also the cadre controlling office of the Indian Cost Accounts Service (ICAS) and also render advice on matters relating to the cadre administration including training requirements of the officers for continuous up-gradation of their knowledge and skills, besides being responsible for undertaking various type of studies referred to above. The office also provides necessary coordination, input and training for proper human resource development of ICAS Officers in addition to rendering professional guidance to the ICAS Officers working in different participating organizations.

The major areas of professional functions of Chief Adviser Cost Office are as under:

(i) Assisting all Central Government Ministries/ Departments/Organizations/ State Governments/Union territories in solving complex Price/Cost related issues, in fixing fair prices for various services/products and rendering advice to various Ministries/Departments in cost matters.

(ii) Examination/Verification of claims between Government Departments/Public Sector undertakings and suppliers arising out of purchase contracts.

(iii) Determining prices of products and services supplied to Government in order to enable Government Departments to negotiate the prices with the supplying organisations.

(iv) Unit specific as well as Industry level studies for determining cost/ fair prices and making recommendations for fair prices/rates for products and user charges for services, revision of these charges and also to determine reasonableness of prices charged, duty structure etc.

(v) Valuation of assets and liabilities of business taken over and Shares of public sector undertakings.

(vi) Functioning as Chairman/Members of Committees constituted by Government/ different Departments related to Cost/Financial and Pricing matters.

(vii) Cost and performance audit of industrial undertaking.

(viii) Concurrent Internal audit of Escalations claims of urea manufacturing units determined by Fertiliser Industry Coordination Committee.

(ix) Cost Accounting System for departmental undertakings/Autonomous bodies.

(x) Time and Cost Overruns, Efficiency and Competitiveness studies

(xi) Arbitrator in resolving pricing disputes.

During the period January 2006 to December 2006, 154 studies/reports were completed by the office of the Chief Adviser Cost. The studies completed during the year varied widely in nature and may be broadly categorized under the following heads:

(i) Studies of Pharmaceutical Industry

Determination of norms for Conversion Cost, Packing Charges and Process Loss to facilitate fixation of prices of Drug formulations under DPCO 1995. The job entailed detailed analysis of cost profiles, production process, nature of cost – fixed, variable, semi-variable, packing process etc. of 32 manufacturing units spread across India. Fresh study is also in progress.

(ii) System Study

Review of costing system and fixation of Common Hourly Rate & Overhead Percentage in respect of Govt. of India Presses viz. Mayapuri, Koratty, Chandigarh Bhubneshwar, Coimbatore, Nilokheri and Faridabad.

(iii) User Charges Study

(i) Fixation of fees to be charged by Geological Survey of India for various services rendered.

(ii) Determination of prices of Oral Polio Vaccine. The

Vaccines are required for Expanded Immunization Programme, a centrally funded programme administered by Ministry of Health. Since the budgetary outflow depends upon the price, these studies fall within the category of charges payable by the Central Government from the Central Budget.

(iv) Fair price of goods/services purchased on single tender or from limited sources

(i) Fair prices of Bed Durries supplied by Association of Corporations and Apex Societies of Handlooms under Single Tender System.

(ii) Fair price of Barrack Blankets supplied by Womens' Development Organisation (WDO) to various Government Ministries/Departments under Single Tender System.

(iii) Fair price of Folding Camp Bed purchased by CRPF, Ministry of Home Affairs.

(v) Fair price of products/service where Govt. is both producer/service provider & user

(i) Fixation of fair price of Tear Gas Gun (TGG), Multi Barrel Launcher (MBL) and Tear Smoke Munitions manufactured by Tear Smoke Unit (TSU), Tekanpur and consumed by various Central Paramilitary forces and State Police Organizations for the year 2006-07.

(ii) Fixation of fair selling prices for Postal Stationery Items supplied by ISP, Nashik during 2000-01 and 2001-02 and SSP, Hyderabad for the year 1999-00, 2001-02, 2002-03 & 2003-04.

(vi) Fixation of charges for services rendered by a Govt. Deptt./agency on behalf of other

(i) Verification of claims made by NAFED in respect of Price Support Scheme (PSS) for Moong-2003 Kharif, Urad 2002 Kharif, Groundnut pods Kharif 2001, Mustard Seed Rabi 2000.

(ii) Verification of claims in respect of Market Intervention Scheme (MIS) for Potatoes during 2003.

(vii) Determination of subsidy for catering (Parliament House Complex and Prime Minister's Office)

(viii) Balance Sheet of Departmental manufacturing units on accrual accounting principles

(i) Preparation of Balance Sheet and Income & Expenditure Account of BSF, Tekanpur for the year 2005-06.

(ii) Vetting of Proforma Accounts for the year 1998-99 of India Government Mint, Noida.

(ix) Concurrent Internal Audit of escalation claims paid by FICC

95 Reports in respect of Concurrent Audit of Equated Freight Rate/ Escalation claim of various Fertilizer companies were issued during the year 2006.

(x) Miscellaneous studies

(i) Far-flung areas freight subsidy scheme 2002.

(ii) Fixation of fair price of Ayurvedic Medicines supplied by M/s. Pharmaceutical Corporation (IM) Kerala Limited.

(iii) Abatement of Excise duty and Service Tax-Representation of Titan watches.

(iv) Subsidy of new bottling plant at Polt Blair, Siltara, Etawah, Shimoga, Una, Dimapur, Coimbatore, Palaghat, Changelpet and Gurgaon.

(v) Development of film processing rates for the year 2006-07.

(vi) Costing of Renewable energy devices when used for remote village electrification in respect of SPB System and Biomass.

(vii) Processing charges for converting Thorium concentrate into Thorium Oxalate Dry.

(viii) Built up price of Petrol and Diesel.

(ix) Fair price of Insecticides manufactured and supplied by HIL.

(x) Fair price fixation of traction electrics supplied by BHEL to Indian Railways during 2002-03.

(xi) Unit cost of inserting a health massage of the back portion of Biometric Access Cord – Lord Venkateshwara Temple, Tirupati.

Major Studies in hand at Various stages of Completion

(i) Determination of norms for Conversion Cost, Packing Charges and Process Loss to facilitate fixation of prices of Drug formulations under DPCO 1995.

(ii) Review of costing system and fixation of Common Hourly Rate & Overhead Percentage in respect of Govt. of India Presses

(iii) Abatement of Excise duty and Service Tax-Representation of various Industries

(iv) Revising of Storage Charges payable by FCI to CWC

(v) Social Cost benefit Analysis study of National Institute of Pharmaceutical Education and Research, Mohali

(vi) Input output analysis and comprehensive study of five to six units urea producing units.

(vii) Review of costing system of GOI press, Mysore.

Major Committees Represented

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

(i) Committee to have in depth studies of various policies and practices outlined in the draft accounting manual for Govt. of India Presses.

(ii) National Pharmaceuticals Pricing Authority, Department of Chemicals & Petrochemicals.

(iii) Board of Governors and the Society of the National Institute of Financial Management (NIFM), Faridabad

(iv) Advisory Committee to advise the Government on Abatement for Excise Duty and Service Tax.

(v) Governing Body of Tear Smoke Unit, BSF, Tekanpur

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

(vii) Fertilizer Industry Coordination Committee, Department of Fertilizers.

(viii) Committee to examine issues relating to under recoveries of the PSU Oil Marketing companies.

(ix) Committee to consider the procurement of agricultural commodities under the Market Intervention Scheme.

(x) Committee to monitor the construction of 400-pax-cum-100 tonne cargo Vessel for Andaman & Nicobar Administration and Lighthouse Tender Vessels for Department of Lighthouses and Light Ships by HDPE Ltd.

(xi) Committee for the study of pricing/costing of services and products of Survey of India.

(xii) Committee of experts/stackholders to fix and approve benchmark costs of system to be used in RVE Programme.

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

(xiv) Committee to evaluate the proposal of C-DAC for comprehensive computerisation of the operations in the Patent Office, Controller General of Patents, Designs & Trademarks, Department of Industrial Policy and Promotion.

(xv) Advisory Committee constituted for examination of draft Cost Accounting Rules framed by the Department of Company Affairs in respect of various products.

(xvi) Standing Committee of State Secretaries of Stamps and Registration

(xvii) Committee on operationalisation and implementation of energy saving measures in the Central Government Buildings/establishments.

(xviii) Committee for uniform costing and preparation of proforma accounts for various Mints & Presses.

(xix) Committee of Competition Commission of India for consideration of draft regulations prepared by Consultant of D/o Company Affairs.

(xx) Committee on Evaluation of Assets, buildings etc. under Department of Fertilizers.

(xxi) Committee to determine the amount to be paid to DCI – Implementation of Sethusamudram Ship Channel Project (SSCP) – award of dredging contract.

Emerging Role of Chief Adviser Cost Office

After liberalization of Indian economy and globalisation, there has been substantial change in the economic and industrial scenario. The importance of the cost has become much more important than ever before in the competitive atmosphere. The role of the Government is also rapidly changing form the administrator to facilitator and regulator. In the changed scenario, the role of Office of Chief Advisor Cost is expected to be enlarged and in addition to the functions being performed at present, it would be focusing on the following new areas in the coming years:

(i) To act as a Central Pricing Authority.

- To function as residual regulatory authority as it is not practical to create such authority in each sphere/for each Ministry and its cost effectiveness too.
- Provide professional expertise to regulatory authorities.
- Technical audit of subsidy determination/tariff/ price fixation/regulatory authorities.

(ii) Concurrent Internal audit of various subsidy claims paid by different Ministries/ Departments.

(iii) Abatement of Excise duty and Service Tax-Representation of various Industries.

(iv) To act as a pivotal body for determination of User Charges of various public utilities e.g. information & broadcasting, higher education, public health, water supply, transport, tourism, etc.

(v) To provide analytical assistance as input for Ministry of Finance, Planning Commission etc. in project appraisal of Public Investment proposals viz. PIB, FDI, etc. and also assist in dis-investment proposals.

(vi) Cost price based adjustments to implement WTO agreements; Counter-veiling and safeguard measures; CVD and safeguard measures referred to by Ministries/ Departments; To assist Ministry of Finance in examination of recommendations of anti-dumping/ safeguard Directorate before levying appropriate duty and provide services to Appellate Authority (CEGAT) in examination of injury level and other confidential cost data.

(vii) To assist revenue authorities in matters relating to and arising out of transfer pricing.

(viii) To assist in cases involving serious frauds and siphoning of funds by individuals and industrial houses.

(ix) Social Cost benefit Analysis study of various Government Department/ Autonomous bodies

9. Controller General of Accounts

The Controller General of Accounts is apex accounting authority of the Central Government exercising the powers of the President under Article 150 of the Constitution for prescribing the form of accounts of the Union and State Governments on the advice of Comptroller and Auditor General of India.

Broadly, the functions entrusted to the Controller General of Accounts are as under:-

- To formulate the policy relating to the general principles, form and procedure of accounting for the entire Central and State Governments.
- To coordinate and oversee the payment, receipts and accounting matters in the Central Civil Ministries/ Departments through the set up of the Civil Accounts Organization.
- To coordinate and assist in the introduction of management accounting systems in Ministries/ Departments with a view to optimize utilization of Government resources through efficient cash management and an effective Financial Management Information System.
- To administer banking arrangements for disbursements of Government expenditures and collection of government receipts and interaction with the central bank of reconciliation of cash balances of the Union Government.
- To consolidate the monthly and annual accounts of the Central Government and put in place a robust financial reporting system in the overall endeavour toward the formulation and implementation of a sound fiscal policy by Government of India.
- To ensure Human Resource Management such as recruitment, deployment and career profile management of the requisite officers and staff both at the supervisory level and at the operational level within the Indian Civil Accounts Organization.

The office of the Controller General of Accounts is responsible for monthly consolidation of the Union Government accounts. A detailed analysis of monthly trends of receipts, payments, deficit and its sources of financing are presented to the Union Finance Minister every month. The document has over a period of time evolved into an extremely useful tool for monitoring budgetary compliance and a handy MIS reference for decision making. In consonance with the Government's policy towards transparency in public functioning, an abstract of the Union Government account is also released every month on the Internet. The data can be accessed at the website www.cgaindia.gov.in http://cga.nic.in and http://www.cgaindia.org.

In tune with development in best practices, CGA's office also prepares Provisional accounts of the Government of India within two months of completion of the financial year. The professionalism with which these accounts are prepared is evident from the high accuracy level attainted in the last few years as only marginal variations have been observed between the Provisional Accounts and final audited Annual Accounts.

Union government Finance and Appropriation Accounts (Civil) for 2004-05 were submitted to Comptroller & Auditor General of India during March 2006 and were laid before both the Houses of Parliament on 21st March 2006 along with Union Government (Civil) Report No.1 of C&AG of India. A publication titled "Accounts at a Glance 2004-05" was brought out during this period containing broad and significant features of Government receipts and expenditure.

Reconciliation of Reserve Bank Deposits and Public Sector Banks Suspense, Authorization and change of Accredited Banks for handling Governments transactions i.e. Civil and Non-Civil Ministries/Departments, holding Standing Committee Meetings Apex Committee Meetings and Private Sector Banks Meetings to review the handling of Government transactions by Banks Accredited to Civil and Non-Civil Ministries/Departments and disposal of related matters received from different Banks/Ministries/Departments.

With the setting up of Board of Reconstruction of Public Sector Enterprises, the Capital Restructuring Cell in the Office of Controller General of Accounts has been offering comments on the proposals for consideration of the Board as well as on proposals for restructuring received from administrative Ministry. During 2006-07 the cell has examined the proposals of Tungabhadra Steel Products Ltd, Central Electronics Ltd and Bharat Yantra Nigam Ltd.

This office has been actively monitoring the Utilization Certificates(UC). As a result of special drive launched in June 2005 to obtain outstainding UCs from grantee institutions a total of 70713 UCs have been received by Ministries/ Department involving an amount of Rs 38501 crore. The net result show 55.76 per cent of outstanding UCs have been received corresponding to 70.85 per cent in terms of amount. Ministry/Department wise clearance of UC can be summed up as follows:

- 12 Ministry/Department (Petroleum & Natural Gas, Agriculture Research & Education, Parliamentary Affairs, MHA (OL), Revenue (IFU), Post, Telecommunications, Steel, Cabinet Secretariat, Defence Production, Inter State Council Sectt. And Animal Husbandry, Dairy & Fisheries have no outstanding in obtaining UCs for grants released upto 31st March 2005. 2 Ministries viz. Tribal Affairs & Coal have reported 100 per cent clearance for grants released up to March 2005.
- 8 Ministries viz. Environment & Forests (7546 UCs involving an amount of Rs 922 corores), Health & Family Welfare (3384 UCs involving an amount of Rs.2990 crore), Higher Education (2641 UCs involving an amount of Rs.344 crore). Elementary Education (1501 UCs involving Rs.2322 crore), Women & CD (5823 UCs involving an amount of Rs 328 crore), Youth Affairs & Sports (8305 UCs involving Rs.273 crore), Social Justice & Empowerment (1262 UCs involving Rs.850 crore), Culture (9295 UCs involving Rs.273 corores) are having substantial amount of outstanding UCs to be obtained from grantee institutions despite substantial progress made by these ministires.
- In total out of 126844 UCs for grants released up to March 2005 a total of 70713 UCs have been obtained

as on 1.1.2007. This represent 55.76 per cent of outstanding UCs involving 70.85 per cent of the total amount involved in all UCs.

During the year 2005-06 a total of 22 units comprising various Principal Accounts Offices and Pay and Accounts Offices in Ministries/Departments were inspected. A special drive in the form of monthly review of action taken by various CCAs/CAs was launched in CGA's Office which resulted in settlement of about 35 per cent of outstanding paras. Resultantly, a total of 923 paras could be settled by the end of December, 2006.

Examination Reforms: The office of the Controller General of Accounts annually conducts Junior Accounts Officer (Civil) Examination for its staff. The Regulation and Syllabus of this examination was last notified in 1984. During 2006 the regulation and syllabus of the above examination were overhauled and revamped after a detailed review and in consultation with the staff. The revised regulation and syllabus were introduced with effect from the examination conducted in November 2006. Under the revised syllabus, various new topics which have a bearing in the day to day functioning of the office have been introduced. In order that the candidate should have an indepth knowledge on all the subjects of the examination, objective type question have been introduced alongwith the descriptive and practical questions in most of the papers. While the structure of the examination has been simplified, the benchmark for qualifying a paper has been raised from the existing 40 per cent to 55 per cent. In order to sharpen the computer proficiency of the candidates qualifying the examination, the revised regulation requires a candidate to pass the CCC Exam conducted by the DOEACC Society before he could be promoted as Junior Accounts Officer. The revised system also provides the candidate 80 hours of practical training in the accredited institutes of the DOEACC Society. All the above changes brought out in the revised regulation and syllabus has been widely welcomed by the staff and this was also reflected with increasing number of candidates appearing for each one of the papers in the Examination conducted in November, 2006.

Information Technology Initiatives: It has been an endeavour of Controller General of Accounts to develop Information Technology based solutions using modern technology to leverage the organization's core strength of data collection, processing, analysis and presentation of value enhanced services to multifarious users. In line with this various initiatives have been taken in respect of the under mentioned software in use in the CGA's organization.

- **COMPACT**: has been developed for use in the Pay and Accounts offices of all the Civil Ministries of Union Government. Using COMPACT, the compilation of accounts in a Pay and Accounts offices has moved from the earlier "voucher level compilation" to "transaction capturing for compilation". COMPACT provides for monitoring of expenditure with respect to the budgetary provisions and receipts, maintenance of GPF accounts, authorisation of pension/gratuity, reconciliation with banks and incorporation of accounts from the Cheque drawing and disbursing officers under a Pay and Accounts office. It is already implemented in nearly all the Pay and Accounts offices of Civil Ministries. In order that the software could cover more activities being performed in Pay and Accounts offices detailed consultation has been held with field offices. The development work on the enhanced version of COMPACT (Version 6.0) would commence soon.
- **CONTACT/ CONTACT (ORA)**: Pay and Accounts offices of all Ministries submit their accounts to the Principal Accounts office of the respective Ministries, where the accounts are compiled using CONTACT/ CONTACT (ORA). These applications are used by all the Principal Accounts offices for compiling the accounts for a Ministry.
- **GAINS**: For consolidation of the monthly accounts and the Annual Finance and Appropriation accounts of the Union Government, office of Controller General of Accounts uses the GAINS package. Compiled accounts received from different accounting circles are an input to the application. This application is currently running at the Office of Controller General of Accounts. The GAINS software developed on a character based platform is being upgraded with Graphic User Interface. The system design of software is also being modified to cater to the accounts consolidation and reporting needs of the office of Controller General of Accounts
- **e-lekha**: An application to facilitate the daily uploading of the accounts from Pay and Accounts offices to a central database is under development phase. The application will facilitate faster compilation of accounts, consistency of the database and availability of accounting information in more user friendly manner. It is anticipated that this software would enable data mining, and be in a position to meet a wide spectrum of requirements of accounts information of Ministries.
- **Web-Site**: Website of this office www.cgaindia.gov.in displays the monthly and annual Appropriation and Finance accounts of Union Government. It also displays information related to personnel management in civil accounts organization, important orders and circulars, rules/publication released by Controller General of Accounts, information regarding important accounting policies and procedures and examination results for Junior accounts officer(Civil) .A support website www.compact.gov.in for users of the IT applications is also hosted.

Management information systems for internal controls in the organization have been computerized from the month of June, 06.Information related to progress in settlement of pension cases, GPF, balances under various debt, deposit, suspense and remittance heads and other administrative issues is submitted online by various Controllers to office of CGA.

10. The Institute of Government Accounts & Finance (INGAF)

The Institute of Government Accounts and Finance (INGAF) was set up in February, 1992 at Delhi with a view to impart in service training to the Accounts personnel of Civil Ministries/ Departments in various disciplines of Financial Management. The Institute carries out its activities with the help of three regional training centers located at Kolkata, Chennai and Mumbai.

During the year training was imparted to 3461 officials. Two ITEC Training Programmes on Financial Management and Public Expenditure Management was conducted on the request of ITEC Division, Ministry of External Affairs. The Financial Management programme was attended by 22 Councillors of different Municipalities of South Africa. The Public Expenditure Management programme was attended by 35 participants from 21 countries. A sponsored programme on Accrual Accounting was organized for Group A officers of Indian Defence Accounts Service which was attended by 18 IDAS Officers. Another programme on Accrual Accounting and the Common Format for Central Autonomous Bodies was organized. The programme was attended by 17 Registrars of different IITs and IISc Banglore. During the year under review 98 programmes on COMPACT, E-Lekha, INTERNET, E-Mail, Website were organized by the Institute and its Regional Training Centres and imparted training to 1549 number of persons.

11. Central Pension Accounting Office

The Central Pension Accounting Office during the year carried out its role efficiently processing all pension cases within the prescribed time frame. During the period CPAO discharged additional responsibilities as the Interim Central Record Keeping for the New Pension Scheme deal with all new recruits to central Government services, Defence (except the armed forces), Railways, Posts & Telecom. The Central Pension Accounting Office setup on 01.01.1990 is administering the "Scheme for Payment of Pensions to Central Government Civil Pensioners by Authorised Banks". Its function interalia include:

- Preparation of Budget for the Pension Grant and accounting thereof
- Issue of Special Seal Authorities (SSAs)
- Audit of pension payment made by Banks

From its inception in Jan.,90 to 31st March, 2006, 4,89,122 pension cases were authorised. Besides this 4,40,642 Revision / Commutation / Transfer authorities were issued during the period.

Between April, 2006 and Dececember, 2006 (upto 31st December, 2006) this office has processed 39,784 pension/ Revision/Commutation/Transfer cases. It is expected that approximately 50,000 cases would be processed during the financial year 2006-07.

As Interim Central Record Agency (ICRA) for the New Pension Scheme CPAO is collecting and maintaining database for all new entrants to Government Services since January, 2004 which requires co-ordination with a large number of units of Defence, Railways, Post & Telecom departments.

E-Governance Activities at CPAO

CPAO is a fully computerized office. Its main function is authorization of pension to the Authorised Banks, and preparation of Budget and Accounts. Soon after receiving the PPO (Pension Payment Order), the case is diarised, a unique Diary NO. is assigned and referred to respective authorizations section for entry and verification. The SSA (Special Seal Authority) is then printed, authorised and sent back to dispatch section for sending to various banks. All the above functions are done using a central computer with terminals available in all sections. It is possible to trace any case received to CPAO at any stage of processing. The pensioner can enquire about his case any time by giving his PPO Number, from the Enquiry Computer set up at reception.

CPAO has developed its website http:/cpao.nic.in with active technical support of NIC which was launched on 8th Oct., 2001. This website provides information to the pensioners on the status of their cases. They can also make enquiries and obtain replies from CPAO. Websites also gives the latest pension related circulars and links to related site.

Many useful MIS reports like section-wise DSR (Daily Status Report), Operator-wise report are generated to help top management to effectively and efficiently run the office. Management is able to track pendency at different sections in the office such as Receipt, Despatch, Authorisation, Computer Section etc. It is easy to mark the inefficiencies in different section, simply with the help of Daily Status Reports and bottlenecks if any, can easily be identified to initiate corrective measures.

Also, a wide range of softwares have been developed and implemented in this office for streamlining pension disbursement and accounting. These include:-

(i) PEARL :- For processing of pension cases received in this office and issue of Special Seal Authority.

(ii) COMPACT, PAO-2000:- For compiling Monthly Accounts of pension grant and expenditure relating to this office.

(iii) AG Management Software:- For creating database of pensioners drawing through various treasuries and compiling vouchers and processing claims received from various AGs.

(iv) CRA Software:- For interpreting data received from various Ministries relating to New Pension Scheme incorporating it in our database and generating various reports for reconciliation.

(v) Database Management Software:- A software for comparison of bank's database with CPAO's database of pensioners has been developed and exception reports are generated by it to clean up the database and establish a completely matching database of both the ends.

All these initiatives aim at establishing a seamless processing of pension disbursement and accounting and ensuring a minimum of paper work in this office and also to enhance efficiency and effectiveness of the functioning of this office.

12. National Institute of Financial Management

This Institute has been set up with a view to establish itself as a premier knowledge – partner in the country for Training, Research and Consultancy in Financial, Accounts & Audit, Public Economics, Human Resource Management and Information Technology. Primary objectives for which this Institute has been established are –

i) To establish and administer the management of the Institute.

ii) To organize and provide training and continuing professional education to Group 'A' officers of the participating Services including organization of Refresher Courses at senior and middle levels.

iii) To establish the Institute as a centre of excellence in financial management for promoting the highest standards of professional competence and practice.

iv) To undertake and promote research consultancy studies in the fields of accounting, audit, financial and fiscal management and related subjects.

v) To promote education in financial and fiscal management for officers of the "Associate Services/ Centre/State Governments and officers of public sector enterprises/institutions.

vi) To organize International Training Programmes and to keep abreast with the progress made in the rest of the work in the area of finance and accounts, particularly in the Government and public sector institutions.

Towards the achievement of above set objectives, NIFM provides 10 months professional training to probationers of the six Central Group 'A' Finance and Accounts Services with a view to equip them to handle top-level finance jobs in the government. National Institute of Financial Management also provides opportunity far comprehensive & integrated mid-career professional training to in-service officers of Central and State Governments as well as foreign countries, especially SAARC countries by organizing need-based short-term Management Development Programmes as well as a Post Graduate Diploma in Business Management (Financial Management). These courses provide opportunity for professional development, facilitate exchange of ideas, promote quality financial management and bring together government and finance managers and professionals from other disciplines.

The Institute has also taken up consultancy projects in various core areas such as review of General Financial Rules and change over accrual system of accounting and preparation of Annual Financial Statements in the standard formats.

The National Institute of Financial Management is a society registered under the Societies Registration Act 1860. The General Body of the Society is headed by Hon'ble Finance Minister, Govt. of India. The Board of Governors of the NIFM Society is chaired by the Secretary, Department of Expenditure, Ministry of Finance, Government of India. The Institute has a total sanctioned strength of 85 (including 28 faculty posts) out of which 54 posts are presently filled (as on 31.12.06).

Professional Training Courses

The Institute is functional since January 1994 and has successfully trained thirteen batches of probationers of various Accounts, Audit and Finance Services. The duration of the training course is 44 weeks. 13th Professional Training Course completed in the second week of November, 2006. In all, 18 probationers joined the programme. These were from ICAS-3, IRAS–5, IDAS –7 and IP&T (F&A)S -2. One probationer submitted technical resignation to join another Central/All India service. Training of 14th Batch of Probationers commenced on 08th January, 2007 with 39 probationers. They are from ICAS -1, IRAS –18, IDAS –19 and IP&T (F&A)S -1.

Management Development Programmes

The NIFM conducts Management Development Programmes of varying durations every year. Currently the focus of MDPs is in the following areas:

(a) Accrual Accounting (b) Indian Accounting Standards (c) Accounting & Financial Management in Government (d) Financial Management (e) Procurement Procedures for World Bank Aided project (f) Standard Rules & Procedures of the World Bank for Procurement of Goods, Works & Services (g) Tendering & Contracting (h) Service Tax Rules and CENVAT Credit Rules (i) Cyber Security (j) TDS Rules & FBT Rules.

Some of these programmes are sponsored by different Government Departments, Foreign Governments, etc. In addition, various Govt. Departments, PSUs etc. have sponsored candidates for the specialized courses conducted by the Institute. During the year 2006-07, 34 such programmes have been conducted.

Two-year (Full Time) Post-Graduate Diploma in Business Management (Financial Management)

National Institute of Financial Management (NIFM) is conducting a two-year Post-Graduate Diploma in Business Management (Financial Management) approved by AICTE. New Batch of the programme is commencing from 29th January, 2007. Programme consists of four semesters with a duration of 22 weeks per semester. First three semesters are dedicated for classroom teaching. The fourth semester is dedicated to project work. The programme aims at providing exposure to contemporary issues, helping prepare macro scenario for best corporate practices, providing models of governance for both the corporate and public administration. It is designed to impart knowledge & develop skills in areas such as Commercial Accounting, Government Accounting, Financial Management, Public Finance, Budgeting, Financial Policy Formulation, Project Management, Financial Decision Making and MIS.

Consultancy

(a) During the year 2006-07, following Consultancy Projects have been completed by NIFM:

- DFID Sponsored Project for Designing Course Structure/Course Material for training of Orissa Finance Service Officers.
- Study on Financial Performance and viability of State Chaneling Agencies of NSFDC.
- Switchover to Accrual System of Accounting for Jamia Milia Islamia University.

(b) The following Consultancy Projects are awarded/in progress during the year 2006-07:

- Enhancing Institutional Capacity of Royal Institute of Management, Royal Govt. of Bhutan.
- Switchover of Accrual System of Accounting for Assam University, Silchar.
- Switchover to Accrual System of Accounting for NEHU Shillong.

Others

- Stringent economic measures have been adopted to reduce expenditure.
- In Post Graduate Diploma in Business Management(FM) course, fifteen seats funded by Planning Commission are reserved for North-Eastern Region participants.

13. Public Grievances Redressal Machinery and Citizen Interface

- A Public Grievance Redressal Machinery with Joint Secretary in charge of Administration as the Director of Grievances is functioning in the Department. The number of grievances received from the public is negligible.
- A "*complaint Committee"* has been constituted in this Department as per the guidelines of the Supreme Court for redressing the grievances of women.
- In pursuance of Department of Administrative Reform & Public Grievances O.M. No.33011/1/97-O&M dated 21.5.1998 introducing an award scheme for the Central Government employees as well as members of the Public, regarding innovative and workable suggestions for improving the quality of service and making it more customer friendly, a Screening Committee has been constituted in this Department, under the Chairmanship of JS (Per) with Director (A) as Member and US (A) as Member Secretary.
- The information required under RTI Act updated from time to time can be downloaded from the website (http://finmin.nic.in) of the Ministry of Finance.

Use of Hindi as Official Language

Hindi Section ensures implementation of Official Language policy of the Government of India in the Department and translation work related to all kinds of general orders, papers to be laid on the Table of Houses of the Parliament, Parliamentary Questions, Reports, letters & Speeches received from the Hon'ble Ministers etc. is done by Hindi Section.

In the Department 98 per cent Officers/employees have working knowledge/proficiency in Hindi. About 30 per cent to 76 per cent of Official work is done in Hindi by most of the Officers/employees. Typists/Stenographers not knowing Hindi typing/stenography are regularly nominated for the training of Hindi Typing and Stenography and employees who don't possess working knowledge of Hindi are also imparted training in various Hindi courses viz. Prabodh, Praveen & Pragya. This year 26 employees were nominated for Hindi typing/ stenography. Hindi Workshops are organized from time to time in this Department and after each Workshop the participants are given the Certificates and the employees getting first three positions are given the Cash Awards of Rs.500/-, Rs.300/- and Rs.200/- respectively. This year 1 such workshop were organized and 11 employees were imparted training in Hindi.

Meeting of Joint Hindi Advisory committee comprising of Department of Revenue and Expenditure and Controller General of Accounts was held on 29th March, 2006. In compliance with the decisions taken in the meeting the prize money fixed for the examination conducted at the end of workshops was increased from Rs.500/-, Rs.300/- and Rs.200/- to Rs.1200/-, Rs.1000/-, and Rs. 800/- respectively and consolation prize of Rs.500/- was also announced. Similarly prize money fixed for competitions organized during Hindi Fortnight was also increased to Rs.2500/-, Rs.2000/- and Rs.1500/-. It is expected that the next meeting of the committee will be held soon.

For the propagation of Hindi in the Department, Hindi magazine "Vyay Patrika" is published invariably by Hindi Section and the first three articles are awarded Cash award of Rs.1000/-, Rs.750/- and Rs.500/-respectively.

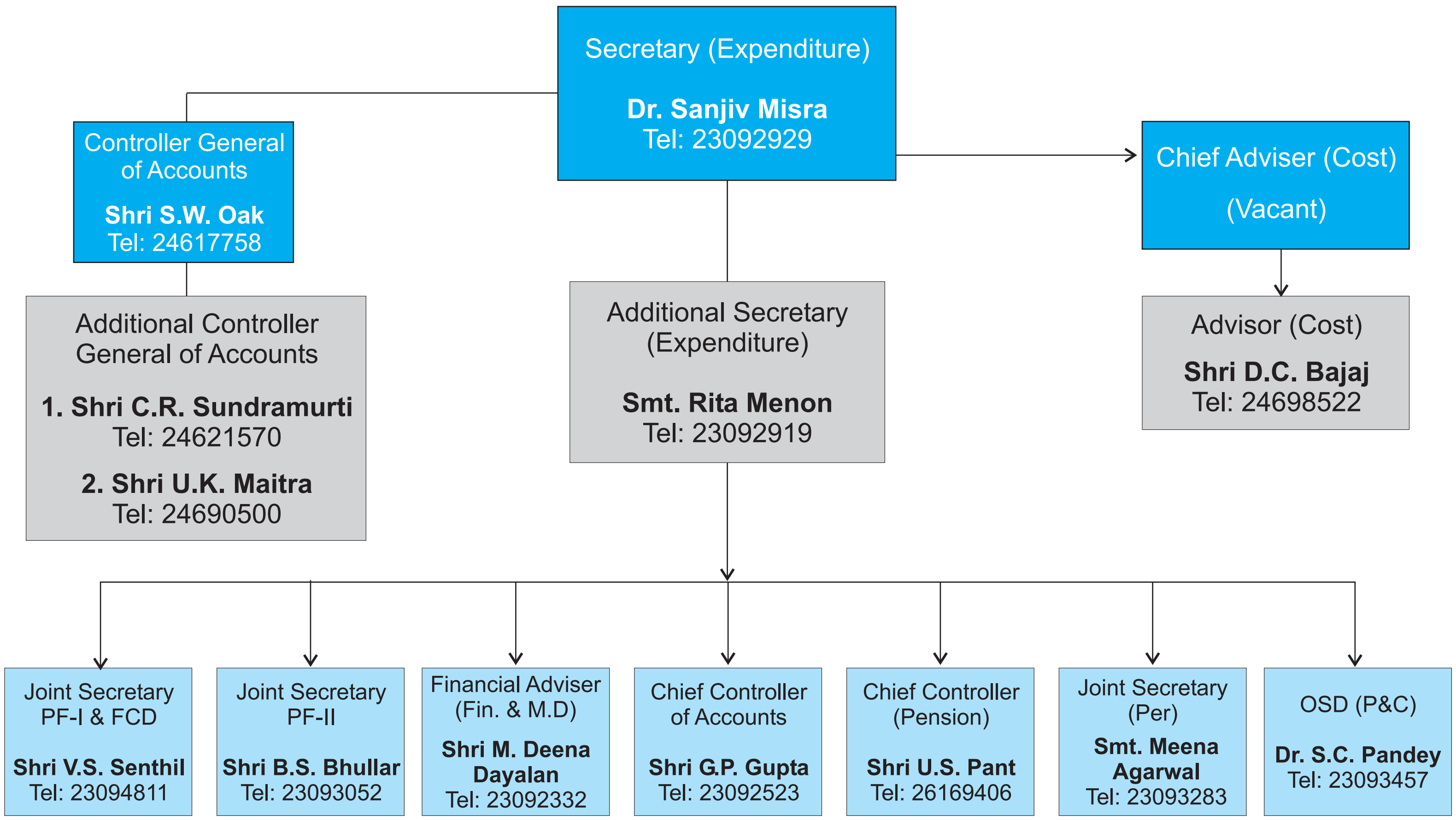
During the year meetings of Official Language Implementation Committee were held in which the progressive use of Hindi in the Department was reviewed.

'Hindi Divas' and Hindi Fortnight were organised in the department during 1st to 15th September, 2006 in which in comparision to previous years, more officers and personnels participated enthusiastically in the nine competitions. Apart from competitions organised in previous year i.e. Hindi Essay, Hindi Noting Drafting, Hindi Poetry, Hindi Ashubhashan, two new competition were organised during Fortnight namely, Hindi Samanya Gyan/Vyavhar and Hindi Slogan. While the former was specifically for Non-Hindi speaking officials the latter was open to all officers and employees. Moreover, seminars on the subject of Official Language with different topics were organised separately for officers and employees. Unique enough, this year, Hindi Sulekh and Shrutlekh competition was open to only IVth class Non-clerical staff of the department. To boost the morale of the employees, those who secured 1st, 2nd and 3rd positions were awarded cash prizes of Rs.2500/-, Rs.2000/- and Rs.1500/- respectively. In addition to this, two prizes of equal amount of Rs.1000/- each were given to those who secured 4th and 5th position for stimulating zeal of the officials.

During the year 2006 three Sections were inspected by Hindi Section in which important suggestions were given to solve the practical problems being faced by employees while doing the work in Hindi.

For the effective and streamlined implementation of Rajbhasha, Hindi Section launched a Rajbhasha Sampark Abhiyan. The campaigning team comprising of translators/ officers, assessed the progress of Hindi and necessary steps were taken.

Organisational Chart of the Department of Expenditure as on 8.3.2007



Chapter-III

Department of Revenue

1 Organisation and Functions

1.1.1 The Department of Revenue functions under the overall direction and control of the Secretary (Revenue). It exercises control in respect of matters relating to all the Direct and Indirect Union Taxes through two statutory Boards namely, the Central Board of Direct Taxes (CBDT) and the Central Board of Excise and Customs (CBEC). Each Board is headed by a Chairman who is also ex-officio Special Secretary to the Government of India. Matters relating to the levy and collection of all Direct taxes are looked after by the CBDT whereas those relating to levy and collection of Customs and Central Excise duties and other Indirect taxes fall within the purview of the CBEC. The two Boards were constituted under the Central Board of Revenue Act, 1963. At present, the CBDT has six Members and the CBEC has five Members. The Members are also ex-officio Additional Secretaries to the Government of India.

1.1.2 The Department of Revenue administers the following Acts: -

1. Income Tax Act, 1961;
2. Wealth Tax Act, 1958;
3. Expenditure Tax Act, 1987;
4. Benami Transactions (Prohibition) Act, 1988;
5. Super Profits Act, 1963;
6. Companies (Profits) Sur-tax Act, 1964;
7. Compulsory Deposit (Income Tax Payers) Scheme Act, 1974;
8. Chapter VII of Finance (No.2) Act, 2004 (Relating to Levy of Securities Transactions Tax)
9. Chapter VII of Finance Act 2005 (Relating to Banking Cash Transaction Tax)
10. Chapter V of Finance Act, 1994 (relating to Service Tax)
11. Central Excise Act, 1944 and related matters;
12. Customs Act, 1962 and related matters;
13. Medicinal and Toilet Preparations (Excise Duties) Act, 1955;
14. Central Sales Tax Act, 1956;
15. Narcotic Drugs and Psychotropic Substances Act, 1985;
16. Prevention of Illicit Traffic in Narcotic Drugs and Psychotropic Substances Act, 1988;
17. Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act, 1976;
18. Indian Stamp Act, 1899 (to the extent falling within jurisdiction of the Union);
19. Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974;
20. Foreign Exchange Management Act, 1999; and
21. Prevention of Money Laundering Act, 2002.

The administration of the Acts mentioned at Sl.Nos.3, 5, 6 and 7 is limited to the cases pertaining to the period when these laws were in force.

1.1.3 The Department looks after the matters relating to the above-mentioned Acts through the following attached/ subordinate offices:

1. Commissionerates/Directorates under Central Board of Excise and Customs;
2. Commissionerates/Directorates under Central Board of Direct Taxes;
3. Central Economic Intelligence Bureau;
4. Directorate of Enforcement;
5. Central Bureau of Narcotics;
6. Chief Controller of Factories;
7. Appellate Tribunal for Forfeited Property;
8. Income Tax Settlement Commission;
9. Customs and Central Excise Settlement Commission;
10. Customs, Excise and Service Tax Appellate Tribunal;
11. Authority for Advance Rulings for Income Tax;
12. Authority for Advance Rulings for Customs and Central Excise;
13. National Committee for Promotion of Social and Economic Welfare;
14. Competent Authorities appointed under Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act, 1976 & Narcotic Drugs and Psychotropic Substances Act, 1985;
15. Financial Intelligence Unit, India (FIU-IND); and,
16. Income Tax Ombudsman

Table 3.1					
Sl.No.	Nature of Taxes	Amounts Collected During the Financial Year (Rs. in crore)			
		2005-06 (upto Dec. 05)	2006-07 (upto Dec. 06)	Percentage of growth growth over last year
1.	Corporation Tax	60,933	92,463	51.75
2.	Income Tax*	40,559	51,565	27.14
3.	Other Direct Taxes	245	257	4.73
4.	Central Excise Duty	75,491	80,249	6.30
5.	Customs Duty	47,721	63,952	34.00
6.	Service Tax	15,587**	25,662***	64.60
	Total	**2,40,536**	**3,14,148**	**30.60**

* *Includes Fringe Benefit Tax, Securities Transactions Tax and Banking Cash Transaction Tax.*

** *Cheque deposited on or prior to 31.3.2005 but realized in April. 2005 is included in April 2005 revenue.*

*** *Cheque deposited on or before 31.3.2006 but realized during April, 2006 is not included in April, 2006 revenue but treated as March, 2006 revenue. This is on account of the change in the reporting practice w.e.f 2005-2006 revenue.*

1.1.4 A comparison of the collection of Direct and Indirect taxes during the financial year 2006-2007 with that during the previous financial year is given in Table 3.1.

1.1.5 An Organisation Chart of Department of Revenue is given in the Annexure on next page.

2. Revenues Headquarters Administration

2.1 The Headquarters of the Department of Revenue looks after matters relating to all administration work pertaining to the Department, coordination between the two boards (CBEC and CBDT), the administration of the Indian Stamp Act 1899 (to the extent falling within the jurisdiction of the Union), the Central Sales Tax Act 1956, the Narcotic Drugs and Psychotropic Substances Act 1985 (NDPSA), the Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act 1976 (SAFEM (FOP) A), the Foreign Exchange Management Act 1999 (FEMA), Prevention of Money-Laundering Act, 2002 and the Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974 (COFEPOSA), and matters relating to the following attached/ subordinate offices of the Department:

a) Enforcement Directorate
b) Central Economic Intelligence Bureau (CEIB)
c) Competent Authorities appointed under SAFEM (FOP) A and NDPSA
d) Chief Controller of Factories
e) Central Bureau of Narcotics
f) Customs, Excise and Service Tax Appellate Tribunal (CESTAT)
g) Appellate Tribunal for Forfeited Property (ATFP)
h) Customs and Central Excise Settlement Commission (CCESC)
i) Income Tax Settlement Commission (ITSC)
j) Authority for Advance Rulings (AAR) for Customs and Central Excise
k) Authority for Advance Rulings (AAR) for Income Tax
l) National Committee for Promotion of Social and Economic Welfare (NCPSEW)
m) Financial Intelligence Unit, India (FIU-IND)
n) Income Tax Ombudsman

The DG (CEIB) reports directly to the Revenue Secretary. The Secretary (NCPSEW) reports to the Revenue Secretary through the Chairman, CBDT.

2.2 The following items of works are also undertaken by the Headquarters:

I. Appointment of:
   a) Chairman and Members of CBEC and CBDT
   b) Chairman and Members of ATFP
   c) Chairman, Vice Presidents and Members of CESTAT
   d) Chairmen, Vice Chairmen and Members of CCESC and ITSC
   e) Chairmen and Members of AARs for Customs/ Central Excise and Income Tax
   f) Director of Enforcement
   g) Director General of CEIB
   h) Competent Authorities (SAFEM (FOP) Act and NDPS Act)
   i) Director (FIU-IND)
   j) Income Tax Ombudsman

II. Setting up of Commissions/Committees under the Department

III. Foreign training and assignment of officers of the Department

Organisational Chart of the Department of Revenue

IV. Processing of the cases of deputation of IRS/ICCES officers to Central Government under Central Staffing Scheme or any Board/PSU etc.

V. Issue of sanction for payment of annual contribution to the Customs Cooperation Council, Brussels (Belgium) and other international agencies.

Justice R.S. Pathak Inquiry Authority:

2.3 In order to inquire into the contents of certain contracts mentioned in the Report of the Independent Inquiry Committee on Oil-for-Food Programme of Iraq (Volcker Committee), the Government of India had set up, vide Resolution dated 11th November, 2005, a single member Inquiry Authority headed by Mr. Justice R.S. Pathak, former Chief Justice of India and former Judge of the International Court of Justice. The said Inquiry Authority submitted its Report on 3rd August, 2006.

2.4 The Report was examined by the Government and the conclusions contained in the Report were accepted. In compliance with the provisions contained in sub-section (4) of section 3 of the Commissions of Inquiry Act, 1952, the Report along with Memorandum of Action Taken thereon, was placed before both the Houses of Parliament on 7th August, 2006.

2.5 In addition, the Report was forwarded in its entirety to the following authorities to be treated as information and for such action as may appear to them warranted under law:

(i) The Directorate of Enforcement;

(ii) The Central Board of Direct Taxes;

(iii) The Central Board of Excise & Customs.

3. Central Board of Excise & Customs

3.1 Organization and functions

3.1.1 Central Board of Excise & Customs (CBEC) deals with the tasks of formulation of policy concerning levy and collection of Customs and Central Excise duties, Service Tax, prevention of smuggling and evasion of duties, and all administrative matters relating to Customs, Central Excise and Service Tax formations. The Board discharges its assigned tasks with the help of its field formations namely, the Zones of Customs & Central Excise, Commissionerates of Customs & Central Excise and the Directorates. It also ensures that taxes on foreign & inland travel are administrated as per the law and the collection agencies deposit the taxes collected to the public exchequer promptly.

3.1.2 Zones of Customs, Central Excise and Customs (Preventive)

Presently, there are twenty-three zones of Customs and Central Excise in the country located at the following places: Delhi, Chandigarh, Kolkata, Bhubaneshwar, Shillong, Lucknow, Meerut, Ranchi, Mumbai-I, Mumbai-II, Jaipur, Bhopal, Pune, Nagpur, Vadodara, Ahmedabad, Bangalore, Mysore, Kochi, Hyderabad, Vishakhapatnam, Chennai and Coimbatore. These zones are headed by Chief Commissioners.

There are eleven exclusive zones of Customs/ Customs (Preventive) headed by Chief Commissioners. These are Delhi, Mumbai-I, Mumbai-II, Kolkata, Chennai, Bangalore, Ahmedabad, Delhi Customs (Preventive), Patna Customs (Preventive), Mumbai-III Customs and Chennai Customs (Preventive).

3.1.3 Commissionerates of Central Excise

There are ninety-three Commissionerates spread all over the country predominantly concerned with levy and collection of Central Excise duties and Service Tax. Some of these Commissionerates also deal with Customs and Anti-smuggling work in their jurisdictions. These are organized as territorial units, usually extending to part or whole of a State or a metropolitan area.

These 93 Commissionerates are as follows: Delhi-I, Delhi-II, Delhi-IV (Faridabad), Delhi-III (Gurgaon), Panchkula, Rohtak, Chandigarh, Jalandhar, Ludhiana, Jammu & Kashmir, Kolkata-I, Kolkata-II, Kolkata-III, Kolkata-IV, Kolkata-V, Kolkata-VI, Kolkata-VII, Bolpur, Siliguri, Haldia, Bhubaneshwar-I, Bhubaneshwar-II, Shillong, Dibrugarh, Kanpur, Lucknow, Allahabad, Meerut-I, Ghaziabad, NOIDA, Meerut-II, Jamshedpur, Patna, Ranchi, Mumbai-I, Mumbai-IV, Mumbai-V, Thane-I, Thane-II, Mumbai-II, Mumbai-III, Belapur, Raigad, Jaipur-I, Jaipur-II, Bhopal, Indore, Raipur, Pune-I, Pune-II, Pune-III, Goa, Aurangabad, Nasik, Nagpur, Vadodara-I, Vadodara-II, Vapi, Surat-I, Surat-II, Daman, Ahmedabad-I, Ahmedabad-II, Ahmedabad-III, Bhavnagar, Rajkot, Bangalore-I, Bangalore-II, Bangalore-III, Mysore, Mangalore, Belgaum, Kochi, Thiruvananthapuram, Kozhikode, Hyderabad-I, Hyderabad-II, Hyderabad-III, Hyderabad-IV, Tirupati, Guntur, Vishakhapatnam-I, Vishakhapatnam-II, Chennai-I, Chennai-II, Chennai-III, Chennai-IV, Pondicherry, Tiruchirapalli, Coimbatore, Salem, Madurai and Tirunelveli.

3.1.4 Commissionerates of Service Tax

Six exclusive Commissionerates of Service Tax have started functioning from 14th September, 2004 at Mumbai, Delhi, Kolkata, Chennai, Ahmedabad and Bangalore.

3.1.5 Commissionerates of Customs and Customs (Preventive)

These Commissionerates, 35 in all, are spread across the country. They have been assigned the following functions:

(a) Implementation of the provisions of the Customs Act, 1962 and the allied acts, which includes levy and collection of customs duties and enforcement functions in their earmarked jurisdictions;

(b) Surveillance of coastal and land borders to prevent smuggling activities. Marine and telecommunications wings are available with the Board to assist these

Commissionerates in their anti-smuggling work and surveillance of sensitive coastline.

These 35 Commissionerates of Customs & Customs (Preventive) are as follows: Delhi (Air Cargo-Import and General), Delhi (ICD), Delhi (Air Cargo Export), Mumbai (General), Mumbai (Export), Mumbai (Import), Nhava Sheva (Import and Mulund CFS), Nhava Sheva (Export), Mumbai Air Cargo (Import), Mumbai Air Cargo (Export), Mumbai (Airport), Pune Customs, Kolkata (Airport), Kolkata (Port), Chennai (Airport and Air (Cargo), Chennai Port (Export), Chennai Port (Import), Bangalore, Mangalore, Kochi, Ahmedabad, Kandla, Vishakhapatnam, Amritsar Customs (Preventive), Jodhpur Customs (Preventive), Delhi Customs (Preventive), Patna Customs (Preventive), Lucknow Customs (Preventive), Mumbai Customs (Preventive), Tuticorin, Tiruchirapalli, West Bengal Customs (Preventive), Kolkata, Shillong Customs (Preventive) and Jamnagar Customs (Preventive).

3.1.6 Appellate and Tax Recovery Machinery

At present, there are 54 Commissioners of Central Excise (Appeals) {including Commissioner (TAR)} and 6 Commissioners of Customs (Appeals). The appellate machinery comprising the Commissioner (Appeals) deals with appeals against the orders passed by the officers lower in rank than Commissioner of Customs and Central Excise under the Customs Act, 1962, the Central Excise Act, 1944 and Service Tax laws.

3.1.7 Commissioner (Adjudication)

There are presently 12 posts of Commissioner (Adjudication) to decide the cases having all-India ramifications and high revenue stakes. These Commissioners attend to Central Excise as well as Customs cases.

Six posts of Commissioners have been redeployed in the CBEC from. 25.04.2005 from its field formations.

3.1.8 Attached/ Subordinate Offices

In the performance of administrative and executive functions, the following attached / subordinate offices assist the CBEC in the reorganized set up:

a) Directorate of Central Excise Intelligence
b) Directorate of Revenue Intelligence
c) Directorate of Inspection
d) Directorate of Housing and Welfare
e) National Academy of Customs, Excise and Narcotics
f) Directorate of Vigilance
g) Directorate of Systems
h) Directorate of Data Management
i) Directorate of Audit
j) Directorate of Safeguards
k) Directorate of Export Promotion
l) Directorate of Service Tax
m) Directorate of Valuation
n) Directorate of Publicity and Public Relations
o) Directorate of Organization and Personnel Management
p) Directorate of Logistics
q) Directorate of Legal Affairs
r) Office of the Chief Departmental Representative (CDR)
s) Central Revenues Control Laboratory (CRCL).

3.1.9 The functions of the Directorates, the Office of the CDR and the CRCL, in brief, are as follows:

a) Directorate of Central Excise Intelligence

- To collect, collate and disseminate intelligence relating to evasion of central excise duties;
- To study the price structure, marketing patterns and classification of commodities vulnerable to evasion of central excise duties;
- To coordinate action with other departments like Income Tax etc. in cases involving evasion of central excise duties;
- To investigate cases of evasion of central excise duties having inter-Commissionerate ramification; and
- To advise the Board and the Commissionerates on the modus operandi of evasion of central excise duties and suggest appropriate remedial measures, procedures and practices in order to plug any loopholes.

b) Directorate of Revenue Intelligence

- To study and disseminate intelligence about smuggling;
- To identify the organized gangs of smugglers and areas vulnerable to smuggling, targeting of intelligence against them and their immobilization;
- To maintain liaison with the intelligence and enforcement agencies in India and abroad for collection of intelligence and in-depth investigation of important cases having inter-Commissionerate and international ramification;
- To alert field formations for interception of suspects and contraband goods, assessment of current and likely trends in smuggling;
- To advise the Ministry in all matters pertaining to anti-smuggling measures and in formulating or amending laws, procedures and practices in order to plug any loopholes; and
- To attend to such other matters as may be entrusted to the Directorate by the Ministry or the Board for action/ investigation.

c) Directorate of Inspection (Customs and Central Excise)

- To study the working of customs, central excise and narcotics departmental machinery throughout the country and to suggest measures for improvement of its efficiency and rectification of defects in it through inspection and by laying down procedures for their smooth functioning;

- To carry out inspections to determine whether the working of the field formations are as per customs and central excise procedures and to make recommendations with regard to the procedural flaws, if any noticed; and
- To suggest measures for improvement in functioning of the field formations.

d) Directorate of Housing and Welfare

- To monitor and coordinate with the Board, Ministry and field formations;
- To help the field formations in framing the project proposals;
- To assist the field formations in implementation of approved projects by providing technical support in respect of integrated and architectural planning, standardization of house building designs;
- To devise procedures for accounting and documentation system;
- To coordinate with the field formations with regard to the problems of encroachment and abandoned properties;
- To prepare and compile Housing Manuals for future guidelines;
- To keep the field formations informed about various schemes and facilities available;
- To have regular coordination and interaction with the Central Building Research Institute, Roorkee for getting their guidance on building science with reference to different projects and to have liaison and coordination with Housing Boards, architects and builders to ensure quality construction in scheduled time-frame;
- To encourage environment friendly planning and execution of the projects of the department through horticultural and other environmental planning; and
- To coordinate with the Ministry on welfare measures related to building/acquisition of library, guest houses, resorts/holiday homes, conference rooms, playgrounds, godowns, garages etc.

e) National Academy of Customs, Excise and Narcotics

- To impart training to direct recruits and to arrange refresher courses for departmental officers;
- To assist in formulation of training policies and to implement the policies approved by the Board by devising schemes and syllabi of studies for training of direct recruits and departmental officers; and
- To arrange study tours of Customs and Excise officers from neighboring countries under the United Nations Development Programme.

f) Directorate of Vigilance

- To monitor the vigilance cases against the officers of Customs and Central Excise formations;
- To maintain proper surveillance on the officials of doubtful integrity; and
- To maintain close liaison with the Central Bureau of Investigation, Directorate General of Revenue Intelligence and vigilance and anti-corruption in order to ensure that the programmes on vigilance and anti-corruption are implemented in all Commissionerates of customs, central excise and narcotics formations.

g) Directorate of Systems

To look after all aspects of the implementation of customs, central excise and service tax computerization projects including acquisition of hardware, development and maintenance of software, training of personnel and monitoring of expenditure budget on computerization at the central and field levels.

h) Directorate of Data management

- To collect and consolidate data and statistics pertaining to realization of revenue from indirect taxes and advise the Ministry and the Board in forecasting budget estimates; and
- To collect statistics for compilation of statistical bulletins and statistical yearbook in respect of revenue, arrears, seizures, court cases, etc. pertaining to indirect taxes.

i) Directorate of Audit

- To provide direction for evolution and improvement of audit techniques and procedures;
- To ensure effective and efficient implementation of new audit system by periodic reviews;
- To coordinate with the external agencies as well as other formations within the Department;
- To suggest measures to improve tax compliance;
- To gauge the level of audit standards and assessees satisfaction;
- To evolve the policy for development of a sound database as well as enhancing the skills of the auditors with a view to making the audit effective and meaningful;
- To aid and advise the Board in policy formulation and to guide and provide functional directions in planning, coordination and supervision of audits at local levels;

- To collate and disseminate the relevant information; and
- To implement EA-2000 audits and related projects like risk management, CAAP audits etc.

j) **Directorate of Safeguards**

- To investigate the existence of serious injury or threat of serious injury to the domestic industry as a consequence of increased imports of an article into India;
- To identify the article liable for safeguard duty;
- To submit the findings, provisional or otherwise, to the Central Government regarding 'serious injury' OR 'threat of serious injury' to the domestic industry consequent upon increased imports of an article from the specified country.
- To recommend the following;
  - The amount of duty which, if levied, would be adequate to remove the 'injury' or 'threat of injury' to the domestic industry:
  - The duration of levy of safeguard duty and where the period so recommended is more than a year, to recommend progressive liberalization adequate to facilitate positive adjustment; and
  - To review the need for continuance of safeguard duty.

k) **Directorate of Export Promotion**

- To interact with the Export Promotion Councils for various categories of export to sort out the difficulties being faced by the genuine exporters;
- To function in close liaison with allied agencies concerned with the exports to ensure that genuine exporters get the full advantages of the export schemes without any difficulties;
- To monitor the performance of the field formations through monthly and quarterly returns, like duty foregone statements, drawback payment statements and quarterly drawback payment statements and to compare and compile the same to enable the Ministry to review the policy;
- To carry out the appraisal studies to examine the efficacy of the existing legal provisions/ rules and procedures and suggest to the Ministry about the changes to be made, if any;
- To conduct post-audit of the Brand Rate fixed by the concerned Commissioners and carry out physical verification of selected cases independently or with the help of the central excise formations;
- To conduct post-audit of the select cases of duty-free imports allowed under various Export Promotion Schemes in the customs and central excise formations; and
- To work in close coordination with the Board with the Customs-IV Section and FTT Section of the Board's office that deals with 100 per cent EOUs/ EPZ Units/SEZ Units and various Technology parks and the schemes relating to the export of gems and jewellery.

l) **Directorate of Service Tax**

- To monitor the collections and assessments of service tax;
- To study the administration of service tax in the field and to suggest measures to increase revenue collections;
- To undertake study of law and procedures;
- To form a database; and
- To inspect the Service Tax Cells in the Commissionerates.

m) **Directorate of Valuation**

- To assist and advise the Board in the implementation and monitoring of the working of the WTO Agreement on Customs Valuation;
- To build a comprehensive valuation database for internationally traded goods using past precedents, published price information or prices obtained from other authentic sources;
- To disseminate the price information on a continuing basis to all customs formations for online viewing as a means of assistance for day-to-day assessments with a view to detecting and preventing under-valuation as also for enabling assessments to be finalized speedily;
- To monitor valuation practices at various customs formations and bring to the notice of the Board significant and emerging pricing patterns and to suggest corrective policy or other measures, where needed;
- To maintain liaison with the Valuation Directorates of other customs administrations and customs officers posted abroad;
- To study international price trends of sensitive commodities and pricing patterns of transnational corporations (e.g. transfer pricing) and Indian ventures with foreign collaborations and help evolve a system to combat planned under-valuation as well as valuation frauds; and
- To carry out inspection of the field formations to determine whether the valuation norms as evolved by the Directorate of Valuation are uniformly applied across the country.

n) **Directorate of Publicity and Public Relations**

- To prepare, revise and publish the statutory and departmental manuals;

- To consolidate the instructions issued by the Board in technical and administrative matters of customs and central excise;
- To compile the important judgments delivered by High Courts and the Supreme Court on matters relating to indirect taxes;
- To update all departmental manuals through correction lists etc; and
- To undertake publicity with a view to educating the public about indirect taxes through brochures, posters, hoardings, radio, TV and press media.

o) Directorate of Organization and Personnel Management

- To look after the functions relating to method studies, work measurement and staffing, besides management services including manpower planning for the customs, central excise, service tax and narcotics formations.

p) Directorate of Logistics

- To inspect, assess and evaluate the effectiveness of the staff deployed on anti-smuggling duties in the Commissionerates and in vulnerable areas;
- To monitor, coordinate and evaluate the progress in cases of adjudications, prosecutions and rewards to informers and officers in various Commissionerates and to watch the progress in disposal of confiscated goods involved in prosecution cases;
- To plan and assess the need for staff training, equipment, vehicles, vessels, communications or other resources required for anti-smuggling work in various Commissionerates and to evaluate their operational efficiency; and
- To deal with the matters concerning acquisition, procurement, purchase, repair and reallocation of such equipment.

q) Directorate of Legal Affairs

- To function as the nodal agency to monitor the legal and judicial work of the Board;
- To create a data bank of all the cases decided by the various benches of the Tribunal and monitor cases effectively in order to ensure that the field formations recommend filing of appeals only in deserving cases and not on the issues already decided by the Supreme Court or High Courts and accepted by the department;
- To ensure that all orders of the Tribunal are examined by the field formations and timely proposal for filing appeal are sent to the Board, wherever necessary and the report about acceptance of an order is sent to the Chief Commissioner;
- To intimate the field formations about important decisions of the various High Courts, which are finally accepted by the Department, and about the important decisions of the Supreme Court so that unnecessary litigation work on the issues already settled is not created by the field formations;
- To create a database pertaining to the cases pending in various High Courts. The appellant/ respondent Commissioners are required to assist the Directorate in creating and updating the database pertaining to the High Court cases;
- To prepare panels of standing counsels/ panel counsels for various High Courts on the basis of feedback received from the field formations. However, the role of the Directorate is restricted to making recommendations only and the final decision regarding approval of the panel / appointment of the Standing Counsels rests with the Ministry; and
- To keep an approved panel of eminent lawyers well versed with indirect Tex laws as well as administration, who may not be on the regular panel of the government but may be engaged by the department for handling important cases.
- To receive the cause list of cases from the Tribunal registry and distribute case files among Departmental Representatives (DRs);
- To monitor the efficient representation by DRs in all listed cases before the benches of the CESTAT;
- To coordinate with and call for cross-objections, clarifications and confirmations from the Commissionerates concerned;
- To maintain coordination with the President, CESTAT; and
- To exercise administrative control over DRs and attend to the administrative matters pertaining to the CDR office including its regional offices at Mumbai, Kolkata, Chennai and Bangalore.

s) Central Revenues Chemical Laboratory

- To analyze samples of goods, and to render technical advice to the Board and its field formations, in regard to the nature, characteristics and composition of various goods.

3.2 Indirect Taxes

Customs, Central Excise and Service Tax are three major sources of the Central Government tax revenue.

3.2.1 Customs

An amount of Rs.64911 crore (provisional) was collected from Customs duty during 2005-06, which was Rs.11729 crore more than Budget Estimate and Rs.629 crore more than Revised Estimate for that year.

In continuation of Government's policy to have moderate customs duty rates, basic custom duty rates were reduced.

Annexure-I

Year Wise Trend of Indirect Tax Revenue Collection

(Rs in crore)

Sl. No.	Head	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
I	**CUSTOMS**								
	BE	50,369	53,572	54,822	45,193	49,350	54,250	53,182	**77,066**
	Actuals	48,420	47,542	40,268	44,852	48,629	57,611	64,911	
	Achievement as percentage of BE	96.1	88.7	73.5	99.2	98.5	106.2	122.1	
	Percentage change over last year	19.1	-1.8	-15.3	11.4	8.4	18.5	12.7	
II	**UNION EXCISE**								
	BE	63,865	71,252	81,720	91,433	96,791	1,09.199	1,21.533	**1,19.000**
	Actuals	61,902	68,526	72,555	82,310	90,774	99,125	1,11.657	
	Achievement as percentage of BE	96.9	96.2	88.8	90.0	93.8	90.8	91.9	
	Percentage change over last year	16.3	10.7	5.9	13.4	10.3	9.2	12.6	
III	**SERVICE TAX**								
	BE	2,300	2,200	3,600	6,026	8,000	14,150	17,500	**34,500**
	Actuals	2,128	2,613	3,302	4,122	7,891	14,200	23,976	
	Achievement as percentage of BE	92.5	118.8	91.7	68.4	98.6	100.4	137.0	
	Percentage change over last year	8.7	22.8	26.4	24.8	91.4	80.0	68.8	
IV	**FTT / IATT ****								
	BE	779	830	850	1,050	1,115	Nil		
	Actuals	982	1,133	1,193	1,324	1,314			
	Achievement as percentage of BE	126.1	136.5	140.4	126.1	117.8			
	Percentage change over last year	-2.7	15.4	5.3	11.0	-0.8			
V	**ALL INDIRECT TAXES**								
	BE	1,17,313	1,27,854	1,40,992	1,43,702	1,55,256	1,77,599	1,92,215	**2,30,566**
	Actuals	1,13,432	1,19,814	1,17,318	1,32,608	1,48,608	1,70,936	2,00,544	
	Achievement as Percentage of BE	96.7	93.7	83.2	92.3	95.7	96.2	104.3	
	Percentage change over last year	17.1	5.6	-2.1%	13.0	12.1	15.0	17.3	

*** The FTT/IATT has been abolished w.e.f. 09-01-2004.*

Note:

1. *Revenue figures for 2005-06 are provisional.2.Service tax revenue collection for 2005-06 includes cheques for payment of service tax received up to 31st March, 2006 but realization reported subsequently.(Source PrCCA)*

Despite reduction in the peak basic rate of customs duty for non-agricultural commodities from 20 per cent to 15 per cent in the 2005-06 Budget, the revenue has grown by 12.8 per cent during 2005-06 on account of higher growth in imports.

3.2.2 Central Excise

3.2.2.1 Revenue collection from Central Excise duties in the year 2005-06 (provisional) was Rs.1,11,657 crore vis-à-vis the Budget Estimate of Rs.1,21,533 crore and the Revised Estimate of Rs.1,12,000 crore. Actual collection of revenue vis-à-vis the estimates/targets depends upon various factors. Revenue collection is primarily a function of tax policies, industrial growth, inflation rate and fluctuation in the prices of commodities. Variation in any of the parameters may impact on the collection of excise duty. Since 1.3.2006, only certain category of commodities attract 24 per cent excise duty. Thus, tariff measures could not help the growth in revenue buoyancy of central excise duty.

3.2.2.2Excise revenue comes from manufacturing sector comprising of non-SSI and SSI sectors. Increase in the output from SSI sector does not result in proportionate increase in excise revenue because of the excise duty exemption available up to a clearance limit of Rs.1 crore in a financial year to SSI units. The share of SSI sector in excise revenue declined from 3.3 per cent in 1999-2000 to 2.4 per cent in 2005-06. This was on account of increase in limit for full excise duty exemption from Rs.30 lakhs to Rs. 50 lakhs in 1998-99 and again to Rs.1 crore in 2000-01. In 2005-06 Budget, the eligibility limit for SSI exemption was further increased from Rs. 3 crore to Rs. 4 crore. There are reported to be about 40 lakh small-scale units in the country, which constitute about 95 per cent of the industrial units in the country. As per Ministry of SSI, total production of SSI sector during 2004-05 was Rs.4,18,263 crore of which exports constituted about Rs.1,24,416 crore. SSI sector thus contributed about 13.5 per cent of the GDP. However, SSI sector for year 2005-06 contributed 2.4 per cent of the total excise duty. As per a NIPFP research paper, estimated revenue foregone on account of SSI exemption during 2004-05 was about Rs.11,300 crore. The growth in excise revenue from SSI units is not directly proportionate to growth in turnover of SSI units. Estimated revenue loss on account of area-based excise duty exemption schemes provided to North-Eastern States, J&K, Himachal Pradesh and Uttaranchal during 2005-06 was Rs. 6,200 crore. These schemes are expected to have significant effect on the buoyancy of excise revenue in future.

3.2.3 Service Tax

Service Tax collection during 2005-06 (provisional) was Rs.23,976 crore *[this includes cheques for payment of Service Tax received up to 31st March 2006 but realization reported subsequently]* as against the Budget Estimate of Rs.17,500 crore and Revised Estimate of Rs.23,000 crore. Service Tax collection over the years starting from 1999-2000 vis-à-vis their Budget Estimates are furnished in the Annexure titled Year wise Collection of Indirect Taxes above. It may be observed from the said Annexure that from 2003-04 there has been a considerable increase in Service Tax buoyancy. This may be attributed to increase in Service Tax rates, widening of tax base and better compliance on account of improvement in tax administration.

3.3 Budgetary Changes brought in during FY 2006-07

3.3.1 Customs

I. General Rate Structure

As part of continuous process of bringing about a moderate, rational and simplified tax structure, the peak rate of customs duty on non-agricultural products was reduced from 15 per cent to 12.5 per cent in 2006-07 Budget with a few exceptions. Ad-valorem component of customs duty on textile fabrics and garments has been reduced from 15 per cent to 12.5 per cent . The specific component, however, has been left unchanged. Thus, at present, the three major ad-valorem rates of customs duty are 5 per cent, 10 per cent and 12.5 per cent.

II.Other Budgetary Changes

Other major changes introduced in the 2006-07 Budget in Customs tariff are given below:

A. Additional Duty of Customs

In the 2005-06 Budget, enabling provisions were made for imposing a levy of Special Additional Duty of Customs @4 per cent under section 3(5) of the Customs Tariff Act, 1975 to partly make up for the internal taxes like VAT, Sales Tax, Central Sales Tax, which apply on sale, purchase or transportation of goods in India. To start with, this duty was imposed on ITA (Information Technology Agreement) bound items and on specified inputs/raw materials used for manufacture of electronics/information technology items. In 2006-07 Budget, this duty has been extended to all imported goods (with some exceptions). Jewellery, however, attracts a lower rate of additional duty of customs of 1 per cent.

B. Metals and their Inputs

In 2006-07 Budget, customs duty has been reduced from 10 per cent to 7.5 per cent on primary and semi-finished forms of metals viz., Alloy steel, Aluminium, Copper, Zinc, ash and residues of Copper and Zinc, Tin, base metals of Chapter 81 (such as, Tungsten, Magnesium, Cobalt, Titanium, etc.). Customs duty on ores and concentrates has also been reduced from 5 per cent to 2 per cent. Customs duty of 5 per cent has been imposed in this year's budget on iron and steel melting scrap.

C. Minerals, Ores & Concentrates

Customs duty has been reduced from 15 per cent to 5 per cent on mineral products, except for marble, granite, asbestos and cement. Duty on mineral ores and concentrates has been reduced from 5 per cent to 2 per cent.

D. **Refractories and Inputs for Refractories**

Customs duty has been reduced from 10 per cent to 7.5 per cent on refractories and raw materials for refractories, namely, natural graphite powder, aluminous cement, boron carbide, reactive alumina, silicon metal (99 per cent purity), micro/fumed silica, brown fused alumina, fused zirconia, silicon carbide, sodium hexameta phosphate, sintered/tabular alumina and fused silica.

E. **Chemicals and Petrochemicals**

Customs duty has been reduced from 15 per cent to 10 per cent on halogens, sulphur, carbon, hydrogen, methanol and from 10 per cent to 5 per cent on organic chemicals falling under headings 2901 to 2904 (except Chloromethane and Tricholoroethylene). Duty on Polymers of Ethylene (LDPE, LLDPE, HDPE, LHDPE, LMDPE), Polymers and Copolymers of Propylene, Polymers and Copolymers of Styrene, Polymers of Vinyl Chloride and Ethyl Vinyl Acetate has been reduced from 10 per cent to 5 per cent. Duty on catalyst (heading No.3815) has been reduced from 10 per cent to 7.5 per cent. Customs duty on Styrene, Ethlyne Dichloride and Vinyl Chloride Monomer has been reduced from 5 per cent to 2 per cent. Duty on Naphtha for manufacture of specified polymers has been reduced from 5 per cent to NIL.

F. **Agriculture**

Customs duty has been increased from 30 per cent to 60 per cent on natural honey and to 80 per cent on vanaspati, bakery shortening, inter-esterified, elaidinised fats, margarine and similar boiled, oxidized, dehydrated, sulphurised, blown, polymerized or modified preparations of edible grade. Concessional rate of 5 per cent customs duty + Nil CVD, presently available to specified plantation machinery up to 30.4.2006, has been extended by one more year. Customs duty has been reduced on Atlantic Salmon from 30 per cent to 10 per cent.

G. **Textiles**

Customs duty has been reduced from 15 per cent to 10 per cent on man-made fibers, filament yarns, spun yarns, specified textile machinery and parts for manufacture of such machinery and also on textile intermediates namely, DMT, PTA, MEG and Caprolactum. Customs duty on Paraxylene has been reduced from 5 per cent to 2 per cent.

H. **Information Technology**

Customs duty on Set Top Boxes has been unified at Nil customs duty plus 16 per cent CV duty plus 4 per cent special additional duty of customs. CVD under section 3(3) of the Customs Tariff Act has been withdrawn on computers consequent to imposition of excise duty at 12 per cent on computers. Customs duty on MP3 Players and MPEG4 Players has been reduced from 15 per cent to 5 per cent.

I. **Petroleum**

Customs duty has been reduced from 10 per cent to 5 per cent on Naphtha and Petroleum coke. Customs duty on natural gas, including propane and butane, has been unified at 5 per cent.

J. **Health**

Customs duty has been reduced to 5 per cent with Nil CVD by way of excise duty exemption on 14 specified anti-cancer, 10 specified Anti-AIDS and 4 other specified drugs with bulk drugs for their manufacture and 2 specified diagnostic kits and equipment.

K. **Miscellaneous**

Customs duty has been reduced from 15 per cent to 10 per cent on :

(a) Vinyl acetate monomer;

(b) Butyl rubber;

(c) Metallurgical grade silicon;

(d) Borax/Boric acid;

(e) Potassium Chloride.

II. Customs duty has been reduced from 15 per cent to 12.5 per cent on non-edible grade oils having Free Fatty Acid content of 20 per cent or above, used for manufacture of soaps, industrial fatty acids and fatty alcohols and from 30 per cent to 12.5 per cent on crude glycerine.

III. Customs duty has been reduced from 15 per cent to 5 per cent on:

(a) Cullet (broken glass);

(b) Parts of pens falling under heading 9608;

(c) Bisphenol-A and Epichlorohydrine for manufacture of epoxy resin;

(d) Phenol/acetone for manufacture of bisphenol-A;

(e) Packaging machinery, falling under tariff item 8422 30 00 and 8422 40 00.

IV. Customs duty has been reduced from 5 per cent to Nil on parts of hearing aids. A unified rate of 10 per cent customs duty has been prescribed for glass frit and all other glass under tariff item 3207 40 00.

V. **Withdrawal of Exemptions**

Customs duty exemptions/ concessions have been withdrawn on following items:

(a) Saddle tree;

(b) Parts of outboard motors imported by specified agencies;

(c) Spare parts for maintenance of textile machinery;

(d) Video cassettes and video tapes imported by Television Centre of All India radio, or by M/s Electronic Trade and Technology Development Corporation Ltd or by others;

(e) Food products (excluding alcoholic preparations) imported by hotels/ tourism industry in terms of licenses issued under 1997-2002 Exim Policy;

(f) Plant, machinery, equipment imported for setting up of Currency Note/ Bank Note Press at Salbony, Mysore, Nasik and Dewas;

(g) Exemption from CVD on gold concentrate. This exemption will, however, continue by way of excise duty exemption;

h) Specified goods for manufacture of capital goods for setting up of a unit with an investment of Rs.5 crore or more.

3.3.2 Central Excise:

Major changes introduced in the 2006-07 Budget in Central Excise tariff

A. Relief Measures:

I. Excise duty has been reduced from 24 per cent to 16 per cent on:

(a) Aerated waters;

(b) Petrol cars with length not exceeding 4 meters and engine capacity not exceeding 1200 cc; and

(c) Diesel cars with length not exceeding 4 meters and engine capacity not exceeding 1500 cc.

II. Excise duty has been reduced from 16 per cent to 8 per cent on:

(a) Heat resistant latex rubber thread;

(b) LPG gas stoves of value exceeding Rs.2,000 per unit;

(c) Compact Fluorescent Lamps;

(d) Footwear of retail sale price between Rs.250 and Rs.750 per pair.

III. Excise duty has been fully exempted on:

(a) Paddy de-husking rice rubber rolls;

(b) Nuclear grade sodium produced by Heavy Water Board for supply to Kalpakkam Nuclear Power Plant;

(c) Drawing inks;

(d) Quebracho and Chestnut extract;

(e) Gold concentrate for refining.

IV. Excise duty has been reduced from 16 per cent to 12 per cent on specified printing, writing and packing paper.

B. Imposition and Increase of Duty:

I. Excise duty of 8 per cent with CENVAT credit has been imposed on goggles, articles of wood, registers, accounts books, receipt books, letter pads, memorandum pads, dairies, binders, folders, file covers, etc (excluding note books and exercise books), paper labels, paper pulp moulded trays, articles of mica, goods containing at least 25 per cent by weight of fly ash/ phospho gypsum, roofing tiles, raw, tanned or dressed fur skins, portable receivers for calling, alerting or paging, henna powder which is not mixed with any other ingredient, 100 per cent wood free plain or pre-laminated particle or fibre board made from sugarcane bagasse or other agro-waste, parts of walking-sticks, seat-sticks, whips, riding-crops and the like, parts of drawing and mathematical instruments, frames and mountings for spectacles, goggles or the like, having value below Rs. 500 per piece.

II. Excise duty of 16 per cent has been imposed on umbrellas, sun umbrellas and their parts, food preparation intended for free distribution subject to end-use certification (Food products, in general, are exempted unconditionally from excise duty), soap manufactured under a scheme for sale of Janata soap, strips and tapes of polypropylene used in the factory of its production in the manufacture of polypropylene ropes, parts and components of motor vehicles transferred to a sister unit for manufacture of goods falling under chapter 87, goods (other than electrical stampings and laminations, bearings and winding wires) supplied for manufacture of PD pumps for handling water, specified goods meant for display in any fair or exhibition in India, parts of Tableware, kitchenware and other household articles made of iron & steel/ copper/ aluminium, railway track machines, sulphur (2503 00 10), mixture of graphite and clay for manufacture of pencils and pencil leads, aluminium ferrules for manufacture of pencils, tobacco used for smoking through 'hookah' or 'chilam' and 'gudaku'. Sulphur falling under tariff item 2503 00 10 for fertilizers has been exempted from excise duty.

In all the above cases, exemption up to Rs. one crore is available under the general Small Scale Industries (SSI) exemption scheme.

III. Excise duty has been raised from 8 per cent to 16 per cent on mosaic tiles, glassware, lay flat tubing and cigarette filter rods. The rate of compounded levy on stainless steel patti/pattas has been increased from Rs. 15,000/- per machine to Rs. 30,000/- per machine.

C. Food Processing:

I. Excise duty has been reduced from 16 per cent to Nil on condensed milk, ice cream, pectic substances, pectinates and pectates, pectin esterase, yeast and pasta. Excise duty has been reduced from 16 per cent to 8 per cent on ready-to-eat packaged food, texturised vegetable protein (Soya bari), and instant food mixes, namely, pongal mix, vadai mix, pakora mix, payasam mix, gulab jamun mix, rava dosa mix, idli mix, dosai mix, murruku mix and kesari mix.

II. Processed meat, fish and poultry products have been exempted from excise duty.

D. Petroleum

The general rate of Cess applicable on domestic petroleum crude oil under the Oil Industry (Development) Act, 1974 has been increased from Rs. 1,800 per tonne to Rs. 2,500 per tonne.

E. Tobacco Products:

Excise duty rate has been unified at 66 per cent for all types of Pan Masala. The tariff values for Pan Masala have been fixed. Details given in Table 3.2.

F. Textiles:

Excise duty on all man-made (like polyester, nylon, viscose and acrylic) fibers and filament yarns has been reduced from 16 per cent to 8 per cent.

G. Small Scale Industries:

With effect from 01.04.2006, SSI exemption available to power driven pumps has been restricted to only those pumps, which conform to prescribed BIS standards.

H. Information Technology:

I. Excise duty of 12 per cent and 8 per cent has been imposed on computers and packaged software on electronic media respectively.

II. Set top boxes not covered under the Information Technology Agreement are attracting 16 per cent excise duty from this budget.

III. Excise duty on storage devices, namely, DVD-Drives, Flash Drives and Combo Drives has been exempted.

IV. Excise duty on MP3 Players and MPEG4 Players has been reduced from 16 per cent to 8 per cent.

I. Export Oriented Units (EOUs):

Duty on clearances of goods to Domestic Tariff Area from Export Oriented Units, Software Technology Parks, Electronic Hardware Technology Parks etc. has been changed from 50 per cent of aggregate of customs duties to 25 per cent of the basic customs duty plus excise duty payable on like goods.

J. Retail Sale Price (RSP) Based Assessment:

I. RSP based assessment has been extended to parts, components and assemblies for automobiles, plant growth regulators and tooth brushes.

II. Abatement from RSP for levy of excise duty has been reduced from 45 per cent to 42.5 per cent on aerated waters and 40 per cent to 37 per cent on Compact Fluorescent lamp, footwear of RSP between Rs.250 to Rs.750 per pair, ready to eat packaged food and instant food mixes.

Table 3.2

S. No.	Contents	Tariff value (Rs.)
1.	If MRP is not printed on packs containing-	
	(a) not more than 2 grams per pack	1.50
	(b) more than 2 grams but less than 4 grams	3.00
	(c) more than 4 grams but less than 10 grams	Rs. 3 + Rs. 1.25 per gram or part thereof
2.	If MRP is printed on the pack containing less than 10 grams	beyond 4 grams 50 per cent of MRP

Specific rates of excise duty on cigarettes have been revised as under:

Table 3.3

S. No.	Description	Pre-Budget rate (Rs. per 1000)	Post-Budget rate
	Non-Filter Cigarettes		
1	Not exceeding 60 mm in length	150	160
2	Exceeding 60 mm but not exceeding 70 mm	495	520
3	**Filter Cigarettes**	**740**	**780**
4	Not exceeding 70 mm in length	1,200	1,260
5	Exceeding 70 mm but not exceeding 75 mm	1,595	1,675
6	Exceeding 75 mm but not exceeding 85 mm	1,960	2,060
	Other cigarettes		

III. Existing rate of abatement of 50 per cent will apply to all varieties of pan masala, which are subject to RSP based assessment and also in other cases where the RSP is printed despite there being no legal requirement to do so.

K. **Miscellaneous:**

I. Exemption from excise duty has been withdrawn for the unbranded goods like wadding, gauges, protein concentrates, textured protein substances, churan for pan, custard powder, mineral water etc.

II. Exemption from excise duty has been removed from the goods manufactured without the aid of power like essential oils, perfumes and toilet waters, blocks, ceramic tiles, metal containers of iron, steel and aluminium etc.

III. Provision has been made to charge excise duty only on value addition in respect of glued insulating rail joints, if no input tax credit is taken.

IV. Excise duty exemption available on raw materials for manufacture of motor blades of wind operated energy generators, has been extended to all glass fiber items (7019) and resin binders (3824 90).

V. Generic exemption to products of coir industry, cashew industry, tanning industry, oil mill and solvent extraction industry and rice milling industry has been withdrawn.

3.3.3 Service Tax

I. The rate of service tax has been increased from 10 per cent to 12 per cent with effect from 18.04.2006.

II. Other major changes made in budget 2006-07 are given below:

A. The following fifteen services were specifically included to the existing list of taxable services:

(1) Service provided by a registrar to an issue;

(2) Service provided by a Share Transfer Agent;

(3) Automated Teller Machine operations, maintenance or management;

(4) Service provided by a recovery agent;

(5) Sale of space or time for advertisement, other than in print media;

(6) Sponsorship services provided to any body corporate or firm, other than sponsorship of sports events;

(7) Transport of passengers embarking on international journey by air, other than economy class passengers;

(8) Transport of goods in containers by rail by any person, other than Government railway;

(9) Business support services;

(10) Auctioneers' service, other than auction of property under directions or orders of a court of law or auction by the Central Government;

(11) Public relations service;

(12) Ship management service;

(13) Internet telephony service;

(14) Transport of persons by cruise ship; and

(15) Credit card, debit card, charge card or other payment card related services.

B. The scope of existing taxable services has been expanded or clarified as under:

1. References to 'commercial concern', in relation to seventeen taxable services, are being substituted with 'person', so as to expand the scope of the service provider in said services;

2. Banking and other financial services, to include-

   a. transfer of money through different modes by any person;

   b. services provided as banker to an issue;

3. Management consultancy service, to specially include consultancy in different areas of management;

4. General insurance service, to include service provided to a policy holder or any person by an insurer, including a re-insurer;

5. Life Insurance service, to include service provided to a policy holder or any person by an insurer, including a re-insurer;

6. Insurance auxiliary service concerning general insurance business, to include service provided to a policy holder or any person or an insurer, including a re-insurer;

7. Insurance auxiliary service concerning life insurance business, to include service provided to a policy holder or any person or an insurer, including a re-insurer;

8. Maintenance or repair service, to be renamed as "management, maintenance or repair" service, and to include management of movable property;

9. Erection, commissioning or installation service, to include erection, commissioning, or installation of structures, whether or not pre-fabricated;

10. Consulting engineer service, to include engineering consultancy services provided by any firm or body corporate;

11. Business auxiliary service, to include computerized data processing; and

12. Technical testing and analysis service, to clarify that it-

    a. includes clinical testing of drugs and formulations; and

    b. excludes testing or analysis for the purpose of determination of the nature of diseased condition, identification of a disease, prevention of any disease or any disorder in human beings or animals.

C. The following Service Tax exemptions have been withdrawn:

1. The exemptions in relation to general insurance where:

   a. premium is received from re-insurance both domestic and overseas;

   b. all business for which premium is booked outside India.

2. Exemption for services, other than accounting, auditing and statutory certification services, provided by a practicing chartered accountant, company secretary or cost accountant in his professional capacity;

3. Exemption for taxable services provided by the Call Centre or a Medical Transcription Centre;

4. Exemption for taxable service provided in relation to Enterprise Resource Planning (ERP) software system provided by a management consultant in connection with the management of any organization;

5. Exemption for catering services provided on railway train by an outdoor caterer;

6. Exemption for catering services provided within the premises of an academic institution or a medical establishment by an outdoor caterer.

D. Exemption of Service Tax:

1. Exemption from Service Tax has been provided to financial leasing services including equipment leasing and hire-purchase, on that portion of the taxable value comprising 90 per cent of an amount representing as interest i.e., the difference between the installment paid towards repayment of the lease amount and the principal;

2. Exemption from service tax has been provided to testing and analysis services provided in relation to water quality testing by Government owned State and District level laboratories;

3. Exemption from service tax has been provided to all taxable services provided by the Reserve Bank of India.

3.4 Measures Taken for Trade Facilitation/ Simplification of Procedures etc. in Customs

3.4.1 **Risk Assessment Based Speedier Customs Clearance of Goods (RMS):** As a result of one of the ongoing Business Process Re-engineering projects, CBEC had framed a Risk Management System (RMS) for speedy clearance of cargo. Risk Management System (RMS) with the benefit of green channel being extended to a large number of accredited clients (ACP) would reduce the time taken for clearance of imported cargo and transaction costs for such importers. Out of three main components of dwell time i.e. (i) Assessment to payment of duty, (ii) Examination of goods, and (iii) Registration of goods for issue of out of charge from customs, no time will be taken for assessment and the examination of goods under the RMS and ACP program. To this extent, there would be considerable reduction in the dwell time. The RMS would also benefit in terms of increased accountability, reduced interface between the Department and the trade, transparency, uniformity and expeditious clearance of goods on the basis of focused, consistent, structured and scientific risk analysis. The RMS has been implemented at the following Customs Stations, namely, Mumbai Sea Port, Mumbai Sahar Air Cargo, J.N. Custom House-Nhava Sheva, Mulund CFS, Chennai Sea Port , Chennai Air Cargo, Delhi Air Cargo , Delhi ICD-Tughlakabad & Patparganj, Kolkata Sea Port and Air Cargo, Bangalore Air Cargo & ICD. RMS provides the end-to-end solutions for issues spread across the entire compliance continuum - ranging from speedier clearance and facilitation on one end, to targeting and enforcement on the other.

3.4.2 **Accredited Clients Program for Faster Delivery (ACP):** CBEC has also introduced a new scheme of Accredited Clients Program (ACP) in line with the internationally accepted norm of 'Special procedures' for authorized persons who meet criteria specified by the Customs and have a good compliance record. Under this programme, Customs will release most of accredited clients' consignments without any intervention, thus drastically reducing clearance time and transaction costs. Their imports will be subject only to a small percentage of system generated random checks.

3.4.3 **E-banking**: The e-banking facility is being extended to importers to enable them to pay Customs duty through internet and clear goods quickly. The importer would know online about his duty liability and accordingly make e-payment online. This would reduce human interface between the Department & trade and enhance transparent functioning and expeditious payment of Customs duty and achieve overall reduction of dwell time in clearance of imported goods. The pilot project is under implementation in Delhi and this would be extended to other locations in consultation with banks.

3.4.4 **Multi-Banking Facility**: More banks situated close to the Port, Air Cargo complex have been added to facilitate payment of duty by importers/ exporters by authorizing these banks to collect Customs duty payment. This has been extended to major customs locations. Multi-banking facility encourages trade and industry to use efficient banking services so as to reduce the time taken for payment of duty.

3.4.5 Other Measures for Simplification of Procedure to Benefit the Trade

(i) **E-Auction**: Central Board of Excise & Customs has introduced 'E-Auction' in all Customs formations. Such e-auctions would not only cover confiscated goods with Customs or time-expired warehoused goods but also uncleared /unclaimed cargo lying with the custodians.

(ii) Uniform examination norms concerning import & export through courier mode have been provided vide circular no. 23/2006 dated 25.08.2006.

(iii) Airlines/ other carriers having annual transshipment volume above 2500 MT to/from any airport, are exempt from Bank Guarantee for carriage of goods on transshipment. Further, the jurisdictional Commissioners of Customs may also in deserving cases, consider giving waiver of bank guarantee (Circular no. 24/2006 dated 25.08.2006).

3.4.6 Ongoing / Future Measures of Trade Facilitation

- Risk Management System (RMS) based customs clearance process for expedited clearance of imported goods is to be further extended to nine additional EDI locations on priority basis, viz, (i) Ahmedabad Air Cargo, (ii) Hyderabad Air Cargo, (iii) Trivandrum Air Cargo, (iv) ICD Ahmedabad, (v) Goa Custom House, (vi) Tuticorin, (vii) Cochin Custom House, (viii) Ludhiana and (ix) Vishakapatnam Custom House.
- Uniform transshipment procedure for expediting movement of import/export goods within Indian ports is being prescribed.
- Free period available for storage of goods in the premises of custodian is to be reduced from 5 days to 3 days. This would enable faster movement of goods from the air cargo premises and avoid congestion at airports.
- Uniform examination norms, simplified procedure for registration, filing and processing of customs documents in respect of 'Express industry' is to be implemented.
- Customs EDI System and its performance is being enhanced by providing linkage messages to airlines, custodian to enable faster segregation of cargo, avoid delay in filing and processing of documents, and dispensing with manual documentation.
- Notification No.76/2006-Cus (NT) dated 30th June,2006 seeks to amend Notification No.30/98-Cus(NT) dated 2.6.98 relating to the Baggage Rules with a view to provide for inclusion of another land route at the Customs Station of Chakan-da-Bagh in the Distt of Poonch (J&K) for the purpose of clearance of the baggage of the passengers at the station.

3.5 Installation of 7 Truck/Container Scanners by CBEC

In order to upgrade the facilities for non-intrusive inspection of container cargo at various ports, 7 container scanners are to be shortly procured for installation at the ports of Kandla, Mumbai, Chennai and Tuticorin. The proposal has been approved by the Cabinet in its meeting of 27.10.2006. Of the country's total container traffic (4.61 million TEUs), approximately 80 per cent will be covered by Non-Intrusive Inspection systems, once the container scanners at these 4 locations become operational. At JNPT, Nhava Sheva, which handles more 50 per cent of the country's container cargo, 2 container scanners are already functioning. The installation of container scanners will assist the Customs Department in the discharge of its statutory functions, i.e. the collection of Customs duties and other levies as well as the prevention/ detection of movement, across the country's borders of contraband goods. The Department will also be able to enforce the provisions of such laws as the Arms Act, 1959, the Art Treasures & Antiquities Act, 1972, Wildlife Protection Act, 1972, Convention on International Trade in Endangered Species, etc. more effectively. Further, the installation of container scanners will enable the Government to enhance the Port Facility security as required by the International Ship and Port Facility Security (ISPS) code.

3.6 Drawback Directorate

3.6.1 During the year, several initiatives have been taken for facilitating imports and exports. Emphasis has been given for simplifying the procedures while not compromising the interests of revenue. The new All Industry Duty Drawback Schedule came into force from 15th July, 2006. Amendments have been made in the Schedule vide notification Nos. 115/ 2006-Cus. (NT) dated 22.11.2006 and 116/2006-Cus. (NT) dated 22.11.2006 so as to make it user-friendly. The Government has formulated a number of export promotion schemes to support and promote exports. The policy frame-work is laid down in the Foreign Trade Policy, 2004-09 and the procedures governing the schemes are detailed in the Handbook of Procedures, Vol. I, 2004-09. The Department of Revenue has issued notifications to implement the provisions of the Foreign Trade Policy 2004-09 and also the policy initiatives taken in the Annual Supplement to the Foreign Trade Policy 2004-2009. The policy initiatives and procedural simplification measures, undertaken by the Drawback Division of Customs Wing, is indicated below:

3.6.2 Policy Initiatives in respect of All Industry Rates of Duty Drawback

- New Duty Drawback Rates for the year 2006-07 have been formulated after extensive consultations with the various Ministries/ Departments of the Government of India, industry & trade associations and other stake-holders.
- The drawback rates have been determined on the basis of certain broad parameters including, inter alia, the prevailing prices of inputs, standard input-output norms (SION) published by DGFT, share of imports in the total consumption of inputs and the applied rates of duty. As Education Cess is being collected as duties of excise/customs, the element of Education Cess has been factored in the drawback rates. The incidence of duty on HSD/Furnace Oil has also been factored in the drawback calculation.
- The Drawback Schedule, 2006-07 includes 84 new items. These include cotton bags, leather caps, aluminium artware, suitcases & handbags of plastics, tractor parts, compressors, table-tennis tables and various other sports equipment/accessories.
- A significant feature of the new Drawback Schedule is that the drawback rates now also take into account the incidence of service tax paid on taxable services which

are used as input services in the manufacturing or processing of export goods. For this purpose, the Customs and Central Excise Duties Drawback Rules, 1995 have been suitably amended vide notification No. 80/2006-Customs (NT) dated 13.7.2006.

- The Customs has already implemented Electronic Data Interface (EDI) at all major customs locations. Under the system, the shipping bill itself is treated as the claim for drawback. The drawback claim is processed on-line and the amount is credited into the exporter's account in the bank designated by the Customs immediately after "let export order" and filing of manifest by the carrier without any additional paperwork. The Commissioners have been instructed to ensure that all grievances or problems raised by the exporters on drawback claims are addressed within 72 hours and, if this is not possible in any case, to bring the matter to the notice of Member (Customs/Export Promotion) in the Central Board of Excise and Customs. Exporters may also bring any delay beyond 72 hours to the notice of Member (Customs/Export Promotion).

3.6.3 Initiatives in respect of Brand Rate of Duty Drawback

A special drive has been launched for disposal of the pending claims. The Chief Commissioners have been asked to bestow personal attention so as to ensure that the pendency of claims is reduced to the barest minimum.

Implementation of the Foreign Trade Policy, 2004 – 2009 and Drawback Schedule-Details of the Notifications issued during 2006-07 (position as on 30.11.2006):

1. Notification No. 40/2006-Customs dated 01.05.2006 was issued to operationalise the Duty Free Import Authoritsation Scheme under which duty-free import of materials is permitted subject to fulfillment of a specified export obligation.
2. Notification No. 42/2006-Customs dated 05.05.2006 was issued to amend notification No. 21/2002-Customs dated 1.3.2006 so as to permit duty-free import of Toe caps & Toe puffs by manufacturers of specified products of leather or synthetic footwear. Further several items have been added to facilitate import by exporters of sea food products for use in processing of sea food products.
3. Notification No. 43/2006-Customs dated 05.05.2006 was issued to amend notification Nos 91/2004-Customs dated 10.9.2004, 92/2004- Customs dated 10.9.2004, 93/2004- Customs dated 10.9.2004, 94/2004- Customs dated 10.9.2004, 97/2004- Customs dated 17.9.2004 and 41/2005- Customs dated 9.5.2005 so as to operationalise the changes introduced in the Foreign Trade Policy in respect of Advance Authorisation, Served from India & EPCG Schemes and Vishesh Krishi Upaj Yojana.The notification also extends the facility of various export promotion schemes to certain new ports, inland container depots and land customs stations.
4. Notification No. 34/2006-CE dated 14.06.2006 was issued to permit duty free procurement of goods under Served from India Scheme Certificate from indigenous sources.
5. Notification No. 73/2006-Customs dated 10.07.2006 was issued to operationalise the Target Plus Scheme on the basis of incremental exports during 2005-06.
6. Notification No. 79/2006-Customs (NT) dated 11.07.2006, was issued to allow drawback retrospectively for hand bags and shopping bags of cotton, leather caps and combs made of polypropylene.
7. Notification No. 80/2006-Customs (NT) dated 13.07.2006 was issued to amend the Customs and Central Excise Duties Drawback Rules, 1995 so as to provide for rebate of service tax paid on taxable services used as input services in the manufacture of export goods. Vide this notification, the title of the rules has been changed from the Customs & Central Excise Duties Drawback Rules 1995 to 'Customs, Central Excise Duties and Service Tax Drawback Rules, 1995'.The Notification further amends the said rules retrospectively from 1st April, 2003 to provide that besides an exporter, a manufacturer may also apply for brand rate of drawback under Rule 6 and Rule 7.
8. Notification No. 81/2006-Customs (NT) dated 13.07.2006 was issued to notify new drawback rates for 2006-07. The new All-Industry Duty Drawback Schedule came into force w.e.f. 15th July, 2006.
9. Notification No. 88/2006-Customs dated 31.08.2006, was issued to amend notification No. 92/2004-Customs dated 10.9.2004 so as to permit duty-free imports of goods under Served from India Scheme Certificate to golf resort having catering facility. It also amends notification No.94/2004. Customs dated 10.9.2004 dealing with duty-free imports under advance licence for annual requirement.
10. Notification No. 90/2006-Customs dated 01.09.2006 was issued to operationalise the Focus Market Scheme to facilitate duty free imports against duty credit scrip issued under the Scheme
11. Notification No. 91/2006-Customs dated 01.09.2006 was issued to operationalise the Focus Product Scheme to facilitate duty-free imports against duty credit scrip issued under the scheme.
12. Notification No. 41/2006-Central Excise, dated 13.10.2006, was issued to amend notification No. 34/2006-Central Excise dated 14.6.2006 so as to rectify an omission by inserting the words 'capital goods including spares'. Notification No. 34/2006- Central Excise dated 14.6.2006 exempts goods cleared under Served from India Scheme from central excise duty.
13. Notification No. 114/2006-Customs (N.T.) dated 22.11.2006 amends notification No. 36/2005-Customs

(N.T.) dated 2.5.2005 w.e.f. 5th May, 2005 to 14th July, 2006 to provide that all artware and handicraft items shall be classified under the heading of artware and handicrafts according to their constituent material as mentioned in the relevant chapters of the Drawback Schedule.

14. Notification No. 115/2006-Customs (N.T.) dated 22.11.2006 amends notification No. 81/2006-Customs (N.T.) dated 13.7.2006 w.e.f 15th July, 2006 to provide that all artware and handicraft items shall be classified under the heading of artware and handicrafts according to their constituent material as mentioned in the relevant chapters of the Drawback Schedule. The notification also marginally increases the rate of duty drawback on garments and a few items of brass such as alphabets, numerals, plates etc. The notification also creates an entry for 'bicycle pump' in the Drawback Schedule and corrects the classification of a few agricultural implements.

15. Notification No. 116/2006-Customs (N.T.) dated 22.11.2006 amends notification No. 81/2006-Customs (N.T.) dated 13.7.2006 to provide that the term 'Dyed' in relation to textile materials in Chapters 54 & 55 of the Drawback Schedule shall include "Printed or Bleached". The notification also rationalizes a few headings of Chapters 54 & 55 in order to ensure that all types of synthetic/ artificial textile materials are covered in the Drawback Schedule. The Notification also creates a new entry for decorative handicraft articles made of papier mache with drawback rate of 5 per cent ad valorem. Further, the notification makes downward revision in rates of drawback on other base metals and articles thereof falling within Chapter 81 keeping in view the reduction in import duties on ores/ ore concentrates.

3.7 Optional Scheme for Faster Payment of Duty to Avoid Litigation

Section 11A of the Central Excise Act, 1944 and section 28A of the Customs Act, 1962 have been amended so as to introduce an optional scheme for enabling voluntary payment of duty by assessees, in full or in part, in the cases involving fraud, misstatement etc., along with interest and 25 per cent of the duty amount as penalty within 30 days of the receipt of the show cause notice, thereby dispensing with the rigours of adjudication procedure. This is an additional facility given to the trade to settle the dispute at an early stage in order to reduce litigation and also to aid in collection of tax dues more expeditiously. The scheme is optional and not compulsory. The assessee has the further option of using the proposed facility in full or in part. In case of part payment, the remaining amount will be subject to regular proceedings as per law.

3.8 Central Excise Trade Facilitation and Simplification Measures

3.8.1 **Automation of Central Excise & Service Tax (ACES):** The ACES project aims at developing a workflow application to automate the entire business process relating to Central Excise & Service Tax. The salient features of this giant leap to e-governance in Central Excise & Service Tax are as under :

- Simplification of Registration, Returns, Revenue reconciliation and Exports procedure
- E-registration for Central Excise and Service Tax
- E-filing of returns and refunds
- Integration of e-filing with system-driven, risk-based scrutiny
- Export facilitation through linkages between Central Excise and Customs
- Revamping Dispute Resolution Mechanism
- Monitoring of arrears and their recovery.

The software has been developed by the vendor and has reached the stage of user acceptance test. For user acceptance test, four Commissionerate for Service Tax and 8 Commissionerate for Central Excise have been identified. The officers have been trained for conducting these tests and the tests are in progress.

3.8.2 **Simplified procedure for sanction of refund of unutilised credit/rebate claims in cases of export:** A scheme aimed at facilitating quick and regular refund of service tax / excise duty to certain class of exporters has been devised. It has been laid down that once the preliminary scrutiny is completed, 80 per cent of the rebate/ refund claimed will be sanctioned within 15 days of filing of the rebate claim or filing of document evidencing payment of duty, whichever is later. The balance amount shall be paid after completion of the verification and other formalities in the prescribed manner within 45 days from the date of filing of the claim.

3.8.3 **Extension of Export Warehousing facility:** As a measure to facilitate trade and in order to align the provisions of the Central Excise policy regarding Export Warehousing with that of the Foreign Trade Policy, 2004-09, the relevant circular has been amended. Now, the Export Warehousing facility has been extended to all the exporters who have been accorded the status of Two Star Trading House and above as per the provisions of the Foreign Trade Policy, 2004-09. Further, two new places have been included in the list of places where Export Warehousing can be set up namely, Navi Mumbai in the district of Thane in the State of Maharashtra and Taluka Ankleshwar in the district of Bharuch in the State of Gujarat.

3.9 Service Tax Simplification Measures

3.9.1 As a pilot project, post offices have been permitted to collect registration forms and service tax returns in Delhi from. July, 2006. E-payment of Service tax has been made mandatory from 1.10.2006, for all assessees who have paid service tax of more that Rs. 50 lakh in preceding financial year or up-to-date in the current financial year.

3.9.2 The Service Tax Rules, 1994 were amended from. 2.11.2006 so as to:

(i) simplify the procedure for grant of centralised registration for service tax payers who provide service from many locations. It has now been prescribed that, henceforth, in all cases centralised registration will be granted by the Commissioner of Central Excise/ Service Tax having jurisdiction over the premises for which centralized registration is sought. Earlier this registration was being granted by the DGST, Chief Commissioner or Commissioner depending upon location of premises seeking centralized registration and all other premises associated with it; and,

(ii) extend the scope of centralized registration to all taxpayers. Prior to this amendment, the Centralized registration was restricted only to taxable service provider.

3.10 Deterrent Measures

The Central Board of Excise and Customs has inserted rule 12CC in the Central Excise Rules, 2002 and rule 12AA in the CENVAT Credit Rules, 2004 to provide for withdrawing of certain facilities or restrict the utilization of credit by units involved in tax evasion of serious nature. Notification No. 32/ 2006-C.E.(NT) dated 30th December, 2006 has also been issued specifying the offences, and the facilities that are likely to be withdrawn or restricted. These provisions will come into force immediately after the detection of a case against any manufacturer, first or second stage dealer or an exporter involving duty or credit amount exceeding Rs. 10 lakh. Serious offences such as clandestine removal of goods without payment of duty or taking CENVAT credit on bogus or forged invoices without receipt of inputs etc will attract these stringent measures. As far as possible within 30 days after the detection of the case, the Commissioner will forward the proposal for initiation of such action to zonal Chief Commissioner. The Chief Commissioner, after due consideration of the fact of the case and the evidence relied upon by the Commissioner will give the manufacturer, dealer or exporter an opportunity to be heard. The final proposal will be forwarded to the officer authorized by the Central Board of Excise and Customs, who will pass the order. Facilities such as monthly payment of duty will be withdrawn or utilization of CENVAT credit can also be restricted for a specified period. The department can place the factory of a manufacturer under physical control, if he is found to be indulging in similar offence for the second time and for all subsequent offences.

3.11 Audit – Central Excise and Service-Tax

The comparative performance of Audit for the period from April to September during 2005- 06 and 2006-07 is tabulated in Table 3.4.

3.12 Litigation under Indirect Tax

3.12.1 Legal Cell

The CX.8A/Legal Cell of CBEC is primarily responsible for handling litigation arising out of High Court's order on Customs, Central Excise and Service Tax matters. The Legal Cell is also assigned the responsibility of appointment of Special Public Prosecutors and Special Counsels to represent the Department in various courts and tribunals throughout the country.

The number of cases pending before the Supreme Court and the High Courts as on 30.9.2006 and revenue involved therein are in Table 3.6.

In order to streamline the litigation mechanism, periodical review is carried out and suitable instructions are being issued to all concerned. For better coordination with the Ministry of Law for conduct of cases before the Supreme Court and High Courts, Secretary level meetings are being held periodically.

The Judicial Cell of CBEC assists the office of Member (L&J) in examining and filing of departmental appeals in Supreme Court against CESTAT orders, and also presenting the departmental cases before the High Power Committee COD with reference to. Departmental disputes against PSUs.

The following tasks have also been undertaken by the Judicial Cell:

- Conscious efforts have been made to upgrade the quality of departmental appeals at all appellate forums. The thrust area has been to overcome volumes and concentrate on sustainability of department's cases by better examination and analysis of the appeal proposals.
- Due to continuous efforts of the Section, Charter of duties of DLA has been issued on 27.11.2006 for ensuring better coordination with CAS and effective monitoring of the cases pending before the Supreme Court.

The Member (L&J) has held meetings with all the Chief Commissioners & the Commissioners with a view to ensure better processing of the appeal proposals by the field formations and timely submission of the same along with all relevant documents/records to the Board. This has resulted in prompt forwarding of appeal proposals by the Commissioners and timely filing of Civil Appeals in Supreme Court. An instruction No, 835/12/2006-CX dated 05.10.2006 has been issued by the Board in this regard.

Table 3.4

Period	No. of Audits	Total Detection	Total Spot recovery
01.04.05– 30.09.05	11,745	810	86
01.04.06– 30.09.06	11,936	1,402	161

The comparative performance of Anti-Evasion for the period from April to September during 2005-06 and 2006-07 is tabulated in Table 3.5.

Table 3.5

Period	No. of Cases Booked	Amount of Duty Evasion Detected	Amount of Duty Recovered
01.04.05-31.10.05	2515	1980	280
01.04.06-31.10.06	4304	2924	505

3.13 Arrears of Central Excise

The total amount of arrears of Central Excise, as on 30.09.2006. was Rs. 17, 200 crore (approx.), as compared to Rs.11,635 crore (approx.) as on 30.09.2005. Administrative, legal and persuasive measures are regularly taken for early disposal of cases and realization of related arrears.

3.14 Audit-Central Excise

Audit observations in regard to Central Excise and Service Tax matters have been made in Audit Report No.6 (Regulatory Audit) and 7 (Performance Audit) of 2006 of the C&AG of India. Before the aforesaid Reports were prepared, most of the matters taken up in such observations were received in the Ministry as Draft Audit Paras (DAPs) or System Review Paras (draft). These draft paras as well as Audit Report No. 6 & 7 of 2006 have been duly examined by the Ministry, and replies thereto have been furnished to C&AG of India. The Ministry receives, on average, about 240-290 DAPs on Central Excise and Service Tax matters from C&AG of India every year on which replies are required to be furnished on time-bound basis. Action Taken Notes (ATNs) on all audit paras included in the Audit report of C&AG are also required to be furnished to the office of the C&AG. During the current year, 246 DAPs were received out of which, Ministry's comments have been sent to C&AG in 169 DAPs upto 22.12.2006. During the same period, Ministry's replies in respect of all the three System Appraisals of Report No.6 of 2006 have gone at draft stage. The ATN for Review on “Delay in Finalization of Demands” has also been sent to Audit. Besides, the Ministry has furnished replies to an Advance Questionnaire to Lok Sabha Secretariat on the issue of “Delay in Finalization of Demands”. Oral evidence of the representatives of the Ministry of Finance was held on 17.10.2006, on the subject matter of “Delay in Finalization of Demands” (Paras 4.5.2, 4.6.1, 4.6.2, & 4.6.3 of Audit Report No. 6 of 2006) and “Undervaluation of Petroleum products due to adoption of lower mutually agreed price” (Para 11.3 of Audit Report No.7 of 2006). During the year 2006-07, concerted efforts were made to furnish ATNs on pending Audit Paras and replies to C&AG's vetted

Table 3.6

	Total no. of cases	Amount (Rs. in crore)
Supreme Court	2073	3294.04
High Courts	10068	4996.91

3.12.2 **Performance during the F.Y 2005-06:**

Table 3.7: Departmental Appeals

Year	Number of C.A. proposals received	Number of appeals filed	Number of cases where CESTAT order accepted
2005-06	551	347	204

Table 3.8: Party Appeals

Year	Number of Appeals
2005-06	123

(c) **Departmental Disputes with PSUs**

Table 3.9: Processing of COD proposals

Year	Opening Balance	No. of proposal received	Total	No. of proposals disposed off	Closing Balance
2005-06	27	171	198	148	50

Table 3.10: Progress in COD Meeting							
Year	No. of meeting	PSU cases	Departmental cases	PSU cases allowed	PSU cases not allowed	Departmental cases allowed	Departmental cases not allowed
2005-06	25	537	150	420	63	83	41

3.12.3 **Performance/achievements up to last year:**

Table 3.11: Departmental appeals			
Year	No. of C.A. proposals received	No. of appeals filed	No. of cases where CESTAT order accepted
2001-02	516	383	133
2002-03	565	248	298
2003-04	761	294	467
2004-05	736	322	414

Table 3.12: Party Appeals	
Year	Number of Appeals
2001-02	140
2002-03	123
2003-04	111
2004-05	117

(c) Departmental Disputes with PSUs

Table 3.13: Processing of COD proposals					
Year	Opening Balance	No. of proposal received	Total	No. of proposals disposed off	Closing Balance
2001-02	00	132	132	75	57
2002-03	57	64	121	79	42
2003-04	42	232	274	214	60
2004-05	60	240	300	228	72

Table 3.14: Progress in COD Meeting					
Year	No. of meeting	PSU cases	Departmental cases	PSU cases allowed	Departmental cases allowed
2001-02	19	248	33	222	16
2002-03	22	240	85	130	14
2003-04	24	286	100	173	24
2004-05	23	347	106	240	27

comments/further observations on Audit Paras relating to the previous years. Ministry's ATN in respect of 57 DAPs contained in various Audit Paras were furnished to the Audit upto 22.12.2006.

3.15 Provisional Assessment (Central Excise)

Details given in Table 3.15.

3.16 Customs Arrears

***Arrears of Customs Revenue*:** Arrears of Customs revenue (Confirmed Demands) as on 30.11.2006 amount to Rs. 5629.13 crore (approx). The arrears of revenue are kept under constant watch, and all efforts are made to ensure their timely recovery.

3.17 Ad-hoc exemptions

Customs:

Ad-hoc Exemptions are granted under section 25(2) of the Customs Act,1962 in respect of cases of exceptional nature and in public interest. During the year 2006-07 (upto 19th December, 2006) the Ministry of the Finance has issued ad-hoc exemption orders as per the details given in Table 3.16.

The above ad-hoc exemption orders include two ad-hoc exemption orders, i.e., ad-hoc exemption order No. 18 dated 8.5.2006 and no. 31, dated 14.8.2006 permitting State Trading Corporation to import 30 lakh MTs and 20 lakh MTs of wheat respectively. The imports of wheat under these ad-hoc exemptions are still in progress. Customs duty foregone on the wheat imported so far is Rs. 355.14 crore.

Central Excise:

The Central Excise Ad-hoc Exemptions are granted under Section 5A (2) of the Central Excise Act, 1944. The details of such exemptions issued during the year 2006–2007 (upto December, 2006) are given in Table 3.17.

3.18 WCO Activities

India has been elected as the Vice-Chair for the WCO Asia Pacific Region for the period of two years (i.e. upto July 2008).

(Position as on 30.09.2006)

Table 3.15

No. of cases	Amount involved (Rs. In crore)	Less than 3 Months	3 to 6 Months	6 to 12 Months	1 to 3 Years	Over 3 Years
488	243	101	82	83	123	99

Table 3.16

Nos.	Value (Rs. in crore)	Duty involved (Rs. in crore)
28	689.47	364.87

Table 3.17

Nos.	Value (Rs. in crore)	Duty involved (Rs. in crore)
2	12.81	1.72

Table 3.18

S.No.	Notification No.	Date	Subject
1	48/06-Cus (NT)S.O.618(E)	27.04.06	Sherathang was notified as an LCS. With this notification, a third route via Nathula Pass has been opened up for border trade between India and China.
2.	50/06-Cus(NT)S.O.636(E)	03.05.06	Mangalore airport was notified for the purpose of loading/ unloading of baggage.
3.	67/06-Cus(NT)S.O.916(E)	16.06.06	Salamabad and Chakan-da-bagh on Indo-Pak border were notified as LCSs to facilitate Srinagar-Mazaffarabad truck service and Poonch-Rawalkot bus service respectively.
4.	70/06- CusG.S.R. 399(E)	04.07.06	Benefit of exemption notification No.38/96-Cus dated 23.07.97 was extended to trade via Sherathang LCS also.
5.	78/06-Cus(NT) S.O.993(E)	04.07.06	Shamshabad (village) of Ranga Reddy District near Hyderabad was notified as a customs airport for all purposes.
6.	86/06-Cus (NT)S.O. 1266(E)	08.08.06	Karanja Port (in Maharashtra) was notified as a customs port for the purpose of loading/unloading of explosives.

India hosted the meeting of WCO Regional Contact Points at New Delhi from 13-16th November, 2006 to discuss regional customs issues. India also hosted the WCO Policy Commission meeting at Chennai during 5-7th December 2006.

3.19 Land Customs

Details of some of the important notifications issued on land customs matters are given in Table 3.18.

3.20 Anti-smuggling

Anti-smuggling performance on All India basis and of Directorate of Revenue Intelligence (DRI) in respect of seizure cases, Customs duty evasion cases, etc. during the year 2005-06 and 2006-07 (Upto October, 2006) is given in Tables 3.19, 3.20 and 3.21.

3.21 Directorate of Publicity & Public Relations

Publicity

3.21.1 The Directorate planned and executed a massive multi-media drive to spread public awareness about Service Tax and Central Excise. Advertisements with educative messages setting out important Service Tax provisions, new services covered under the Service Tax net were widely publicized during the period April, 2006 to mid December, 2006 as per details given below:

(i) (a) No. of Hindi advertisements - 35 (b) No. of Newspapers - 67

(ii) (a) No. of English advertisements – 37 (b) No. of Newspapers - 81

(iii) (a) No. of Hindi advertisement films or shorter versions thereof: 1 ('Highest Taxpayer-II' (20- seconds) (b) No. of Channels on which placed - 8 (DD National, DD News and DD Bharati: Aaj Tak; Star News; See News; India TV; Sahara Samay National)

Publications

3.21.2 After presentation of the Union Budget on 28.2.2006, Budget Bulletins were printed overnight and air-couriered to field formations on 1.3.2006, Central Excise and Customs Tariffs were updated and printed within 3 days and sent through special messengers to field formations to ensure uninterrupted tax collection. Notifications/circulars relating to Central Excise, Customs and Service Tax were published and sent to field formations and subscribers and also sold to the trade and public. Monthly publications e.g. CBEC Digest, ICE Trade Digest, Updated editions of Travelers Handbook and Sampark were printed and distributed to the field formations.

3.21.3 This Directorate is looking after publicity, public relations and publication requirements of the Customs, Central Excise and Service Tax Department and functions under the direct control of the Central Board of Excise and Customs. The Directorate is located at New Delhi and has no divisions or regional offices. During the year 2005-06, this Directorate published the Service Tax through print and electronic media. A large number of new service providers took registration and Service Tax Collection increased tremendously. The Service Tax campaign through print and electronic media to a large extent was responsible for increase in the Service Tax base and tax collection. The Department set up 'Help Centres' with Public –Private Participation during the year. This Directorate undertook a massive multi-language campaign to publicize this scheme for facilitation and information of the manufacturers, importers, and exporters and service providers. Vigorous publicity resulted in registration of a large number of new service providers. The Directorate undertook wide publicity to enhance public awareness about Service Tax and Central Excise and

(Value Rs. in crore)

Table 3.19: Seizure Cases (Outright smuggling cases)

Year	All India (Including DRI)	DRI
2005-2006	675.17	255.73
2006-2007(upto Oct. 06)	331.06	174.74

(Rs. in crore)

Table 3.20: Customs Duty Evasion cases (Figures based on show cause notices issued)

Year	All India (Including DRI)Duty demanded	DRIDuty demanded
2005-2006	950.51	717.22
2006-2007(upto Oct. 06)	692.11	436.08

(Rs.in crore)

Table 3.21: Duty Realised on All India Basis

Year	All India	DRI
2005-2006	170.96	101.39
2006-2007(upto Oct. 06)	146.77	132.17

encourage voluntary tax compliance through print and electronic media as per details below:

(a) No. of Hindi advertisements - 37;
No. of newspapers - 63

(b) No. of English Advertisements – 75;
No. of Newspapers - 90

(c) No. of Hindi advertisement films or shorter versions thereof - 6 (details as follows: Kid Question (50 seconds)'Best Policy' (30 seconds)'School Kids' (40-seconds)'Teacher' (30- seconds)'Highest Taxpayer' (40 – seconds)'Highest Taxpayer-II'(20 – seconds) and the Channels on which placed are Aaj Tak, NDTV India, Star News Zee News;Sahara Samay National and DD News.

(d) No. of regional advertisement films or shorter versions thereof: one ('School Kids (40 – seconds) and the Channels on which placed are ETV Marathi; Zee Marathi; ETV Gujarati; Zee Gujarati; ETV Bangala A; Aakash Bangla; Star Vijay(Tamil); SunTV(Tamil); ETV Telugu; Gemini TV (Telugu); ETV Kannada; udaya TV (Kannada); Surya TV (Malayalam); and Asianet(Malayalam).

(e) No. of Radio Spots : 1 ('Honesty' (20 –seconds)

(f) No. of Channels on which placed - 14 (Radio Mirchi, Radio City and Red FM in Delhi; Radio Mirchi, Radio City and Red FM in Mumbai; Radio Mirchi in Ahmedabad; Radio City and AIR FM in Bangalore; Radio Mirchi and Red FM in Kolkata and Radio Mirchi in Pune)

3.22 Activities of the Directorate General of Inspection (Customs & Central Excise) (DGICCE)

3.22.1 The headquarter of the DGICCE is situated at New Delhi with control over the following five regional units:1.NRU – North Regional Unit, at Delhi; 2.SRU – South Regional Unit, at Chennai; 3.ERU - East Regional Unit, at Kolkata; 4.CRU-Central Regional Unit, at Hyderabad; and, 5.WRU- West Regional Unit, at Mumbai. The HQRS conducts inspections of the Central Excise Commissionerate and Custom Houses all over the country. The regional units conduct inspections of the field formations in their respective jurisdiction as per the annual inspection programme drawn.

The important items of work attended to on the customs side during the year 2006-07 are given below.

<u>Preparation and submission of</u>:

- Monthly Technical Reports to the CBEC in respect of different items of work on customs side on all-India basis.
- Reports of adjudication cases involving amount of more than Rs. One crore and pending for over one year
- Quarterly report on ATA Carnet.

Inspections**:** List of inspections conducted during the year 2006 till December, 2006 of the Headquarter/Customs formations is given in Table 3.22.

3.22.2 Central Excise:

Central Excise Section (Hqrs) has conducted inspections of the following ten Commissionerates (upto 30.9.2006):

1. Mumbai-IV
2. Vapi
3. Bangalore-III
4. Mumbai-II
5. Hyderabad-III
6. Goa
7. Manglore
8. Bangalore-II
9. Jaipur-I
10. Delhi-II

Table 3.22

S.No.	Date of Inspection	Name of Commissionerate
1	26 to 28.4.2006	Patna
2	12 to 16.6.2006	Lucknow
3	17 to 21.7.2006	Bangalore
4	26 to 30.6.2006	Cochin
5	24 to 28.7.2006	Ahmedabad
6	30.10.2006 to 3.11.2006	Mumbai (Prev.)
7	20 to 24.11.2006	Kandla
8	18 to 20.9.2006	Kolkata Cen. Excise III
9	21 to 22.9.2006	Kolkata Cen. Excise IV
10	28 to 29.9.2006	Vapi Cen. Excise
11	18 to 22.12.2006	Nhava Sheva Exports

Table 3.23				
Month	Bill No.	No. of Invoices Disposal	Amounts (Rs. in crore)	Date of issue of cheque
2005-06	3 to 9/2005-06 (This pertains to last year)		62.24	1.5.2006
April,06	1/2006-07	3353	13.87	01.5.2006
May,06	2/2006-07	5453	25.39	02.6.2006
June,06	3/2006-07	14578	43.13	29.6.2006
July,06	4/2006-07	7135	19.49	31.7.2006
August,06	5/2006-07	8118	15.95	10.10.2006
Sept.-Oct.,06	6/2006-07	2537	6.43	30.11.2006
November-December,06	7/2006-07	(Under process)		

3.22.3 Nepal Rebate Section

(i) General

The Nepal Rebate Section of the DGICCE processes the Central Excise duty rebate claims and makes the payment to Govt. of Nepal in terms of various notifications issued from time to time. Presently the same are being processed in terms of Notification No. 21/2004 dated 6.9.2004 as amended. Apart from processing of the DRP invoices, various other related matters are also dealt in the section, e.g. recapitulation statement for each Bill is prepared and forwarded to all the Central Excise Commissionerates with a copy to the Government of Nepal.

(ii) Refund Sanctioned during current year (2006-07)

The details of the invoices processed and the amount of refund disbursed to the Government of Nepal during the period April- December, 2006 is given in Table 3.23.

3.22.4 Export to Bhutan

The DGICCE is also dealing with the excise duty refund claims to the Royal Government of Bhutan. The excise duty refund claims for the year 2003 on goods exported from India to Bhutan were processed. DG-Level talks on the subject were also held in June, 2006 in Bhutan. The details of refund of Excise Duty given to the Royal Government of Bhutan is given below:

Year 2005 (for the year 2002)	
Amount claimed	Rs. 60, 78, 07,582/-
Amount finalized	Rs. 51, 00, 88,512/-
Year 2006 (for the year 2003)	
Amount claimed	Rs. 90, 07, 63,887/-
Amount finalized	Rs. 62, 55, 71,543/-

3.22.5 Implementation of Official Language Policy by DGICCE

This Directorate is an attached office of CBEC. In order to fulfill the obligatory requirement of the Constitution and Official Language Rules, a Hindi Cell has been formed in the office consisting of one AD(OL), one Senior Translator and two Junior Translators. The Cell is engaged in implementing the Official Language Policy in Headquarters Office of DG Inspection and also working as Nodal Agency coordinating between Ministry/Board and 155 attached/subordinate offices of CBEC. Salient features of the work performed in this regard are given below.

- All translation work of DGICCE from English to Hindi and vice versa, which includes translation of General Orders, Circulars, and Reports etc.
- As member of Official Language Implementation Committee of Department of Revenue, Ministry of Finance, attending quarterly meetings and reporting progress of Hindi in Headquarter office as well as field formations of CBEC.
- Convened meeting of Official Language Implementation Committee of DGICCE in every quarter wherein position of implementation of Official Language Policy and targets of Annual Programmes were reviewed.
- One Hindi workshop was organized from 4.9.2006 to 8.9.2006 to impart training to transact day-to-day business in Hindi.
- In order to promote Hindi noting and drafting, Cash award scheme of Govt. of India, is implemented in the office and cash awards are given during in full the annual function every year. Hindi day/week was celebrated in the office from 14.9.06 to 21.9.06, during which various competitions were held such as Hindi Noting and Drafting, Hindi Essay and Antakshri. On 21.9.2006, a concluding ceremony of the Hindi Week

was held at Rajendra Bhavan, New Delhi. Cultural programmes were staged and cash awards as well as prizes were given to the winners.

- The DGICCE office is a notified office under Rule 10(4) of the Official Language Rules and three sections namely, Establishment, Accounts and Customs Section have been specified for doing entire work in Hindi under Rule 8(4) of Official Language Rules, 1976.
- All officers and staff of the DGICCE are proficient in Hindi and are actually transacting their work in Official Language and work done by them in Hindi is reported periodically to ADG/DG through AD(O.L.). As a result of constant vigil and watch on Hindi work, the overall performance has reached to about 88 per cent noting in Hindi. Most of the sections are doing more than 75 per cent notings in Hindi in files.
- This office has conducted 36 inspections in the year 2006-2007 (upto December, 2006) regarding official language implementation in the various Commissionerates and Directorates. We have got 9 manuals published in Hindi & 3 manuals are under translation in Central Translation Bureau, New Delhi. We have represented the Head quarters in the four inspections of the Commissionerates & Directorates by the Parliamentary Committee on official language.
- There are 12 manuals of Customs and Central Excise. Out of these, 9 manuals have been published in Hindi after translation, three manuals are under translation.
- Quarterly progress reports of Hindi are obtained from all Commissionerates/Directorates in every quarter and the position is received and communicated for compliance.
- Instructions and circulars etc. received from CBEC, Department of official language are circulated amongst all the offices for necessary compliance and information.
- All the question papers of Departmental Promotional Examinations are prepared in bilingual from i.e. in Hindi and in English.
- AD(OL) of this Directorate General is inspecting various offices under CBEC to review the use of Hindi and inspection reports are prepared/sent for necessary compliance.
- On-spot guidance is provided in the finalisation of questionnaire for inspection of Parliamentary Committee on Official Language and representing Hqrs. Office during the inspection meeting of field formations.

4. Central Board of Direct Taxes

4.1 Organisation and Functions

The Central Board of Direct Taxes (CBDT), created by the Central Boards of Revenue Act 1963, is the apex body entrusted with the responsibility of administering direct tax laws in India, viz. income tax, wealth tax, banking cash transaction tax, securities transaction tax, etc. The CBDT consists of a Chairman and six Members. It is the cadre controlling authority for the Income Tax Department, which employs a work force of 61,463 officers and staff (after sanction of additional 7,051 manpower during current fiscal), including 8,640 Gazetted officers (4,192 Group 'A' and 4,448 Group 'B' officers), remaining being Non-gazetted employees in Group 'C' and Group 'D' categories. The annual expenditure budget of the Income Tax Department is Rs.1, 322 crore. The cost of collection of taxes by the Income Tax department, at 0.62 per cent, is among the lowest in the world. For administrative convenience the Department has been divided into five zones – East, West, North, South and Mumbai – each zone under the operational supervision of a Member in the CBDT. Six posts of Commissioners have been created in the CBDT in January 2006 to assist the Chairman / Members to increase operational efficiency and add quality to policy inputs.

In its functioning, the CBDT is also assisted by the following attached offices in Delhi:

(i) Directorate General of Income Tax (Administration)
  a) Directorate of Income Tax (PRPP&OL)
  b) Directorate of Income Tax (Recovery)
  c) Directorate of Income Tax (Income Tax & Audit)

(ii) Directorate General of Income Tax (Systems)

(iii) Directorate General of Income Tax (Legal & Research)

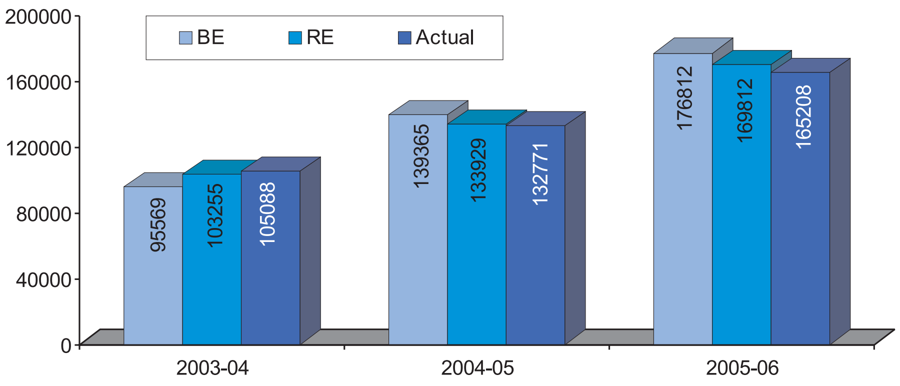
(iv) Directorate of Income Tax (O&MS)

(v) Directorate of Income Tax (Infrastructure)

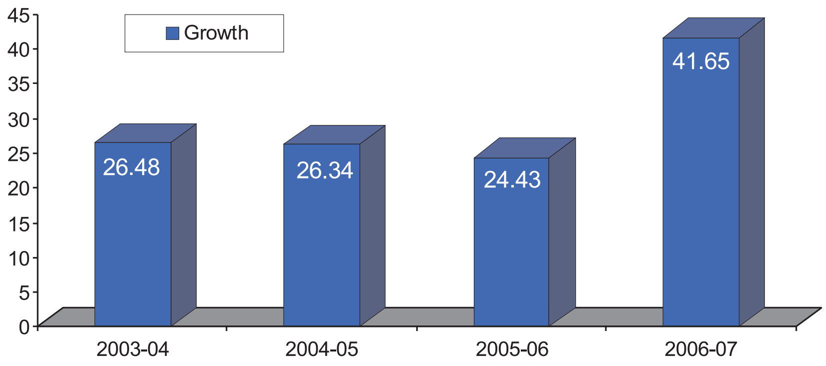
4.1.1 Various Chief Commissioners of Income Tax stationed all over the country supervise collection of direct taxes and provide taxpayer services. Directors General of Income Tax (Investigation) supervise the investigation machinery, which is tasked to curb tax evasion and unearth unaccounted money. Chief Commissioners of Income Tax / Directors General of Income Tax are assisted by Commissioners of Income Tax / Directors of Income Tax within their jurisdictions. Commissioners of Income Tax also perform appellate functions, adjudicating disputes between taxpayers and assessing officers. The Income Tax department has presence in 530 cities and towns across India. With a taxpayer base of over 3.5 crore, the Income Tax department interfaces with almost every urban family in the country.

4.1.2 With modern information technology as a key driver, the CBDT is implementing a comprehensive computerization programme in the Income Tax Department. The programme is aimed to establish a taxpayer friendly regime, increase the tax-base, improve supervision and generate more revenue for the Government. The Income Tax department runs a number of services – through its websites at incometaxindia.gov.in and incometaxindiaefiling.gov.in; through its BPO Aayakar Sampark Kendra (0124-2438000) and through P.O. Box No.5, Gurgaon – 122018 (Haryana). Details of the computerization programme being implemented by the Income Tax department are given under the chapter e-governance.

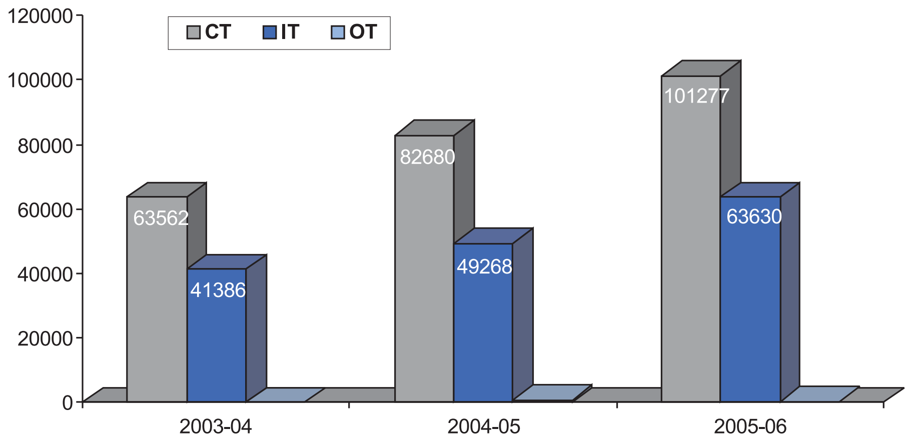
Graph-1: Direct tax collections in last three fiscal years



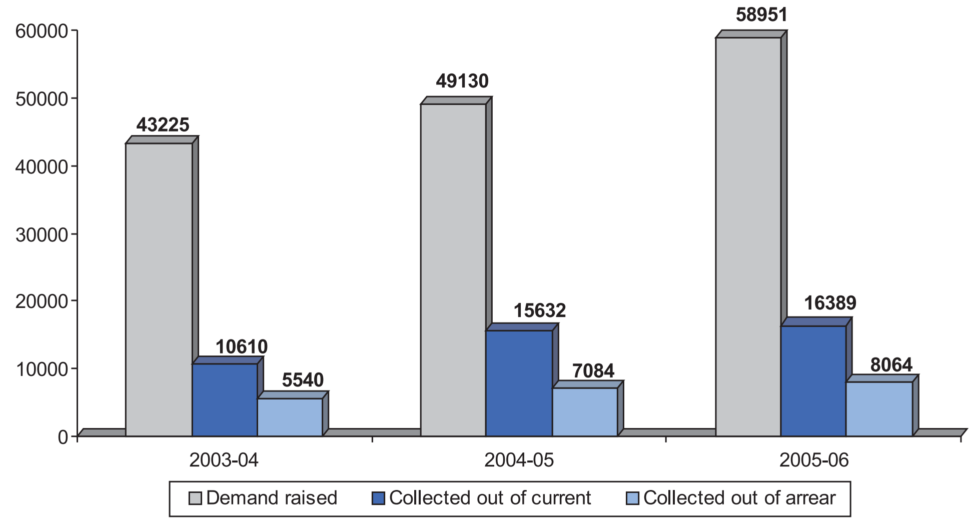
Graph-2: Growth in Direct taxes



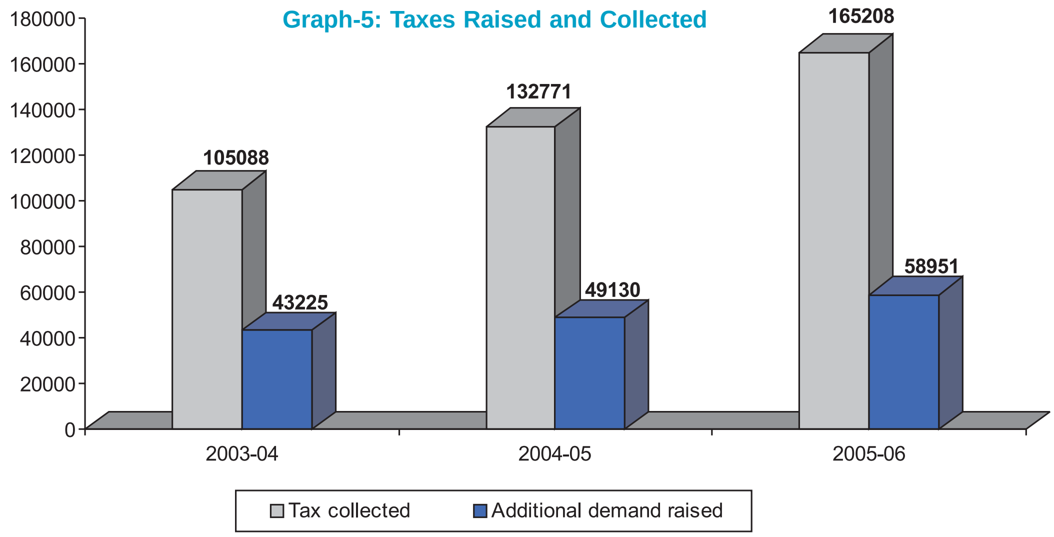
Graph-3: Break up of Direct taxes



Graph-4: Additional Tax Demanded and Collected



Graph-5: Taxes Raised and Collected



4.2 Direct Tax Collections

The direct tax collections during fiscal 2003-04, 2004-05 and 2005-06 stood at Rs.105,088 crore, Rs.132,771 crore and Rs.165,208 crore respectively, thus growing substantially at about 25 per cent per annum. During the present fiscal, however, it has consistently shown a growth of over 40 per cent (up to January 2007). Graphs I, II & III give an indication of buoyancy in direct tax revenues and break up of taxes collected.

4.2.1 Tax Demand Raised and Collected:- In addition to the taxes paid voluntarily by the taxpayers, the Income Tax department scrutinizes tax returns and raises additional tax demand in about 0.8 per cent cases at present. Tax demand raised over a year ago is treated as tax arrears. In the last three years, i.e. 2003-04, 2004-05 and 2005-06, tax collected out of additional demand raised was 24.5 per cent, 31.8 per cent and 27.8 per cent, respectively. The trend of additional tax demand raised and collected is indicated in graph 4.

The additional tax demanded by the Income Tax department constitutes a substantial component of the total taxes collected. In the last three years, i.e. 2003-04, 2004-05 and 2005-06, the tax demand raised constituted 41.1 per cent, 37 per cent and 35.7 per cent, respectively. The trend of tax demand raised and tax collections is indicated in the graph 5.

4.2.2 Tax Buoyancy and New Initiatives: Direct tax revenues have been witnessing a healthy growth for the last 3 fiscal years, and it is growing at the rate of over 40 per cent in the present fiscal year. Still the cost of collection is one of the lowest in the world at less than 0.62 per cent. The buoyancy in direct tax revenues is due to several new legislative and administrative measures taken by the CBDT and also on account of new initiatives taken by the Income Tax department to facilitate common taxpayers. These include the Tax Return Preparer Scheme to help small and medium taxpayers file their tax returns, the Refund Banker's Scheme to enable faster and error free credit of income tax refunds to taxpayers. Income Tax Ombudsmen were posted in seven cities to look into taxpayers' grievances. The Income Tax Department was selected to implement the "Sevottam" scheme for improved governance on a fast – track basis. A Large Taxpayer Unit (LTU) was made operational in Bangalore as a single point to deal with all tax matters of large taxpayers. The electronic filing of tax returns was also introduced

(a) **Tax Return Preparer Scheme:** The Tax Return Preparer Scheme announced in the Budget Speech 2006 has been implemented. The Scheme, which seeks to achieve the twin objectives of (a) reducing cost of compliance for small and medium taxpayers, thereby encouraging them to comply with tax laws and also (b) to provide self–employment opportunities to unemployed graduates all over the country has been met with overwhelming response. 90158 candidates applied for taking the enrolment test conducted to select 5000 persons as Tax Return Preparer for the F.Y. 2006-07. The trained Tax Return Preparer are expected to be certified by mid February 2007. A complete appraisal of the Scheme, which was conducted as a pilot project in 2006-07, will be undertaken and a decision to extend it further will be taken.

(b) **Refund Banker**: A pilot project of the Refund Banker's scheme has been launched on 24th January 2007 in select Commissionerates of Delhi and Patna. Under the Scheme, a Refund Banker (nationalized bank) will issue income tax refund orders to the taxpayers on behalf of the Income Tax Department. The refunds will be issued through the ECS or through a banker's cheque. State Bank of India is the Refund Banker during the pilot project.

(c) **Help Centers:** The Help Centre Programme for small assessees was conducted for the first time on pilot basis in F.Y. 2005-06. The programme is being repeated in the F.Y. 2006-07 after incorporating changes based on feed back received in F.Y. 2005-06. The PUBLIC-PRIVATE PARTNERSHIP model is being followed. The Government is partnering with representative trade bodies, professional associations and clubs and other segments of civil society in a process of public involvement in governmental processes.

Details of Help Centre Programme for the F.Y. 2006-07 are as under:

No. of Help Centres operating	336
No. of Cities/Towns covered	292
Period for which Help 15.8.2006	15.6.2006 to
Centres have functioned / will function.	and 01.3.2007 to 31.3.2007

In F.Y. 2005-06, Help Centres focused on small business tax payers. In F.Y. 2006-07, the Help Centres will also assist salaried employees and pensioners. For the first time in 2006-07, structured Training Programmes have been undertaken for Officers and officials, who would be manning the Help Centres along with the private participants to specifically train them to handle the visitors to Help Centres and to sensitize them to their role as service providers.

(d) **Annual Information Return**: The Finance Act (No.2) 2004 introduced an amendment in Section 285 BA of the Income-tax Act, 1961 w.e.f. 1.4.2005 with a view to provide for filing of Annual Information Return (AIR). Pursuant to this, Rule 114E of the Income-tax Rules, 1962 has been notified to prescribe class of persons required to furnish the return, due date of furnishing the return, nature and value of transaction and form and manner of furnishing the AIR. A comprehensive Instruction no 6/2006 dated 1st August 2006 has been issued for utilization of information in the Annual Information returns (AIRs) relating to financial year 2004-05(Assessment year 2005-2006)

(e) **E-filing:** Electronic filing of Corporate Income Tax returns has been made mandatory w.e.f 24/07/06 . Due date for e-filing of Corporate returns including Gujarat was 31.12.06. Total user registration was 345,171 and 314,834 corporate returns were e-filed up to 31.12.06. Of these 81,552 returns were filed using digital signatures. Taxpayer convenience can be judged from the fact that nearly 33.5 per cent returns (105430) were filed after office hours between 6.00PM and 9.00AM.

(f) **Media Center:** The institution of an official Spokesperson was created in the CBDT in July 2006 to provide a formal mechanism for dissemination of information of public value to the media, and to meet other information needs of the media. A Media Center was also set up to provide secretarial assistance to the Spokesperson. Since its institution, the Spokesperson has held regular press conferences and briefings with the media, both print and television. In addition, nine press releases were issued to the media during 2006, highlighting the legislative and administrative initiatives taken by the CBDT and other achievements of the Income Tax Department. Clarifications regarding incorrect reporting were also issued wherever necessary. As a result of regular interface with the media, a more positive image of the department could be projected.

4.3 Annual Conference

The 22nd Annual Conference of Chief Commissioners and Directors General of Income Tax was held on 4th and 5th of July 2006 at Vigyan Bhawan, New Delhi. In his inaugural address to the Conference, he Finance Minister expressed satisfaction over the growth in direct tax collections and observed that the information obtained / captured through AIR was an important tool to achieve the targets of revenue collection. The Conference also deliberated upon strategies for maximizing collections; reduction of arrears and widening of tax base. The progress of computerization was also discussed during the Conference. The valedictory address was delivered by the Minister of State for Finance (Revenue) on 5th July 2006.

4.4 Direct Taxes Advisory Committees

With a view to encouraging mutual understanding between taxpayers and Income Tax Officers and to advise the

Government on measures for removing difficulties of general nature pertaining to Direct Taxes there is a Central Direct Taxes Advisory Committee (CDTAC) at Delhi and 61 Regional Direct Taxes Advisory Committees (RDTACs) at important stations. Representative of trade and professional associations are also nominated to these committees. The term of these Committees is two years from the date of their constitution.

The Union Finance Minister is the Chairman of the Central Direct Taxes Advisory Committee. The official Members are Secretary (Revenue), Chairman, CBDT and Member (Revenue and Widening of Tax Base), CBDT. The non-official Members include four Members of Parliament: two from each House and representatives of Commerce and Industry like, FICCI, ASSOCHAM etc., lawyers and other professionals.

4.5 Measures to Combat Tax Evasion

The Government continuously strives to check tax evasion and the growth of unaccounted wealth. In pursuance of this objective, systematic survey operations, search and seizure operations and other enquiries in appropriate cases are carried out in a planned manner.

For carrying out the aforesaid work, the field units of the Investigation Wing are headed by 14 Directors General of Income Tax, stationed at Delhi, Kolkata, Chennai, Mumbai, Ahmedabad, Lucknow, Bangalore, Hyderabad, Kochi, Pune, Jaipur, Patna, Chandigarh and Bhopal. Their functions include investigating cases and verification of information pertaining to financial transactions. They are assisted by Directors of Income Tax (Inv.) stationed at different parts of the country who, in turn, are assisted by Additional Directors of Income Tax(Inv.)/ Joint Directors of Income Tax (Inv.). The Assistant / Deputy Directors of (Inv.) and Income Tax Officers work under the supervision of Addl. DIT/ Joint DIT(Inv.). There are three Chief Commissioners of Income tax (Central), two stationed at Mumbai and one at Delhi. Their functions include supervision of search and seizure and other assessments.

4.5.1 The results achieved in searches in the last three Financial Years are in Table 3.24.

4.5.2 A few significant search and seizure cases are illustrated below:

(i) Search and seizure action on real estate developers in Mumbai in January 2007 yielded admission of undisclosed income of about Rs.125 crore.

(ii) In the case of a Group engaged in executing turnkey projects based at Vishakapatnam, search action carried out led to detection of tax evasion to the tune of Rs 85 crore.

(iii) Search and seizure operations were conducted in August 2006 at Kolkata on a group which was engaged in business of real estate development. Total seizure in the case was Rs. 10.53 crore including cash of Rs. 2.30 crore, jewellery worth Rs. 8.15 crore and other assets of Rs. 8.03 lakhs. The group has disclosed an amount of Rs. 29.35 crore for taxation.

(iv) Search and seizure action was conducted on a jeweller of Jaipur in April, 2006 leading to seizure of Rs 9.31 crore including cash of 7.14 crore, jewellery worth Rs. 2.07 crore and other assets of Rs. 10 lakhs. The group surrendered Rs. 21. 96 crore for taxation.

(v) Search and seizure operations were conducted in October 2006 at Delhi on a group which was dealing in garments. Total seizure in this case was Rs. 6.43 crore, including cash of Rs. 1.73 crore, jewellery of Rs. 2.06 crore and other assets of Rs 2.63 crore.

4.5.3 Results of survey conducted in the last 3 years are given in Table 3.25.

4.5.4 A few significant survey cases are mentioned below:

Table 3.24

Financial year	No. of search warrants executed	Value of assets seized (Rs. in crore)
2004-2005	2,377	202.28
2005-2006	3,364	351.70
2006-2007* (up to 30.11.2006)	2,108*	228.39*

(* Figures are provisional)

Table 3.25

Financial year	No. of Surveys conducted	Amount surrendered/disclosed (in Rs. crore)
2004-05	6,028	1,133.90
2005-06	7,639	2,324.57
2006-07 (up to Sep.2006 – provisional)	1,819	1,021.50

(i) In case of a Mumbai based assessee survey carried out in December 2006 led to detection of capital gains on sale of properties. The assessee has surrendered an additional income of Rs 100 crore for taxation.

(ii) A survey was conducted across 8 different states and 200 windmill locations of a company engaged in manufacture of windmills. During the course of the survey, it was found that there was a large number of machines which were scheduled to be commissioned or shown as commissioned before September, 30 or March, 31 of various years including the year 2006. However, evidence was found suggesting that these machines were either not installed or had not generated electricity before the said due dates. As a result of the survey, an amount of Rs.51 crore has already been declared by the concerned assessee as hitherto undisclosed income.

(iii) In the case of a Builder and Developer, undisclosed income of Rs. 8.4 crore was detected. The assessee had generated huge income from its business activities but matching advance taxes had not been paid. Survey action also resulted in gathering of details/evidences relating to incorrect claim of deduction u/s 80IB (10) in respect of some of its projects.

(iv) In the case of a jeweller based at Delhi, an additional income of Rs.4.5 crore was detected as a result of wrong claim of exemption u/s 10B of the Income-tax Act.

(v) In the case of a Hospital and Medical Centre of Ghaziabad, the survey yielded and undisclosed income of Rs.3 crore on account of acceptance of heavy donations, etc.

(vi) In the case of a transport operator based at Mumbai an additional income of Rs.2.2 crore was detected on account of undisclosed investment in property.

4.5.5 Banking Cash Transaction Tax (BCTT)

The BCTT Act was made applicable to all scheduled banks from 1st June, 2005 with the objective of obtaining the trail of black money generated through the banking channels. Under the BCTT Act, scheduled banks and the RRBs (Regional Rural Bank) furnish branch wise details of BCTT collected every month to DGIT(Inv), Delhi who has been designated as the nodal authority in this regard. At present, 355 banks, including 197 RRBs, are reporting transactions under this provision.

The total BCTT tax collected in the current financial year 2006-07 up to 30.12.2006 was Rs.357crore. During F.Y.2005-06 the total BCTT collected was Rs.383.99 crore. Investigation into BCTT cases has resulted in having the intended effect of detecting the trails of unaccounted transactions.

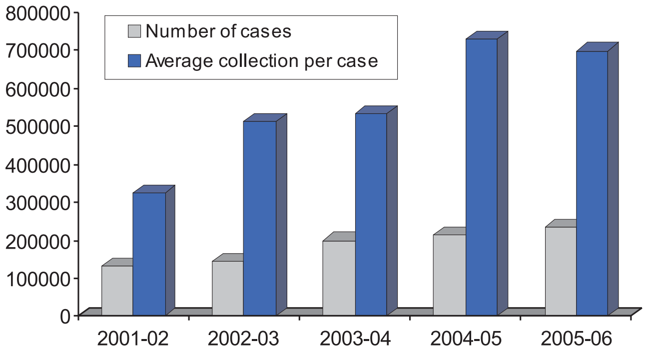
4.5.6 Offences and Prosecution under the Income tax Act

Prosecution for offences is provided under the Direct Tax Laws. There are also provisions for compounding of offences for which prosecution has been launched or is likely to be launched. The number of prosecutions launched for offences under the direct tax laws increased to 326 cases during fiscal 2006-06 as against 103 cases during fiscal 2004-05. Besides, as many as 347 cases were compounded.

4.6 Widening of Tax Base, Assessment and Refunds

4.6.1 Widening of Tax Base: The taxpayer base has grown over the years substantially, from 247.37 lakh taxpayers in 2000-01 to 315.37 lakh taxpayers in 2005-06. While the widening of the taxpayer base has been possible due to various legislative and administrative measures taken for the purpose, it has also substantially increased the work-load of the Income Tax department.

Graph-6: Scrutiny assessment and average collection per scrutiny



4.6.2 Assessment Workload: With gradual widening of taxpayer base, the work-load of scrutiny assessments has increased. However, the qualitative content of the tax scrutiny has also improved, as indicated in the graph 6.

4.6.3 Disposal of Refund Claims:

The expanding taxpayer base has also resulted in increased claims of refunds, which are being disposed of expeditiously. The work-load relating to refunds has nearly doubled in the last five years. While in 2001-02, 26.72 lakh refund cheques of the value of Rs.17,220 crore were issued, in 2005-06 the number of refunds issued increased to 43.12 lakh involving a total amount of Rs.30,033 crore. The Refund Banker's Scheme (pilot project launched during the current fiscal) is an effort in the direction to tackle the increased workload relating to refunds.

4.6.4 Condonation of Delay in Filing Refund Claims:

Refund claims are required to be filed within one year from the end of the assessment year to which the claim pertains. The CBDT has power under section 119(2)(b) of the Income Tax Act to condone the delay if it considers desirable or expedient to do so far avoiding genuine hardship in any case. During the current fiscal, 128 applications for condonation were received up to December 2006 and 109 applications disposed of. The corresponding figures last fiscal were 254 applications and 249 disposals.

4.6.5 Valuation Cell:

Valuation Cells have statutory powers in respect of the following:-

(i) Determining the value of properties for purposes of Wealth Tax, Capital Gains and Gift-tax Act;

(ii) Determining the fair market value of attached properties which are auctioned for recovery of tax arrears.

The valuation cell is also often requested by Income Tax Assessing Officers to assess the cost of construction in property. The Valuation Cell disposed 2,127 cases out of total pendency of 2,823 cases during the Financial Year 2005-06. During the current financial year, 758 cases out of 1746 cases were disposed off up to 30th September, 2006.

4.6.6 Chapter XX-C:

Fifteen litigation free properties have been disposed of during the current fiscal out of properties purchased earlier under provisions of Chapter XX-C. Eight other properties have also been sold in public auction by various Chief Commissioners.

4.7 Tax Administration & Social Objectives

The direct tax laws also attend to the effective achievement of socio-economic objectives of the country through the application of various provisions of Income-tax Act, 1961. The highlights of action taken towards this objective as follows: -

4.7.1 Notification of Charitable and other Institutions/Funds/Organisations:

The CBDT notifies various charitable, religious, educational and medical institutions under section 10(23C) to encourage social welfare and philanthropic activities carried out by various institutions. During the period, total number of notifications/orders issued u/s 10(23C)(iv)/(v)/(vi)/(via) of the IT Act, 1961 were 69.

4.7.2 Promotion of Sports:

During the period, total numbers of notifications issued u/s 10(23) of the IT Act, 1961 were 3.

4.7.3 Promotion of Civil Aviation Sector:

In order to give a boost to the Civil Aviation Sector, CBDT accords exemption in respect of any payment made for acquiring an aircraft on lease from a foreign government or a foreign enterprise, subject to the restrictions, as per Sec. 10(15A) of the IT Act, 1961. During the period the total number of approvals for obtaining aircraft on lease were 77.

4.7.4 Encouragement to Individual Achievements:

Section 10(17A) of the IT Act, 1961 provides exemption in respect of any payment made, whether in cash or kind, in the form of an award provided the said award has been instituted in the public interest and has been approved by the Central Government. The total awards granted approval during the period were 6.

4.7.5 Deduction of Interest on Government Securities/Dividends/Bonds:

Section 80L of the IT Act, 1961 deals with deductions in respect of interest on certain securities, dividends, Section 80IA of the IT Act, 1961 deals with deductions in respect of profits and gains from industrial undertaking etc. In certain cases; and Section 10(15)(vii) deals with exemptions on interest on certain securities (tax free). Under these Sections, total number of notification issued was one.

4.7.6 Orders u/s 10(23G):

Section 10(23G) of the IT Act,1961 deals with deductions in respect of dividends, interest or long term capital gains from investments in any enterprises/undertaking engaged in the business of Infrastructure development .Total orders issued during the period are 8.

4.7.7 Approval for industrial parks and special Economic Zones:

Government of India has implemented special schemes for industrial parks and Special Economic Zones in order to accelerate industrial growth, boost exports, attract investments and create employment. Board of Approvals, under Ministry of Commerce, is the authority for approving applications for industrial parks of which Member (IT) of CBDT is a member. In respect of Industrial Parks, a notification u/s 80IA(4)(iii) is issued by the Ministry of Finance after the approval under the Industrial Park Scheme is given by the Ministry of Commerce. During the year 81 such notifications issued by Ministry of Finance. In respect of Special Economic Zones (SEZ) too approval is granted by a Board of approval of which Member (IT) is a member. However the approvals as well as the notifications in the cases of Special Economic Zones are issued only by the Ministry of Commerce. During the year 237 formal and 166 in principle approval were granted for SEZs.

4.8 Judicial Work

Judicial work in the CBDT involves filing of appeals in Supreme Court / High Court pertaining to direct tax related cases, filing of references in cases of Central Government Public Sector Undertakings / other Government Departments before Committee on Disputes, appointment of Standing Counsels / Special Counsels etc for representing cases before High Courts and other Courts.

Consequent to the laying of higher monetary limit for filing appeals, the number of appeals filed by the Department during FY 2005-06 is as indicated below:

Before	Number
ITAT	32,397
HC	22,278
SC	1,989

The Commissioners (Appeals) disposed off 70,794 cases during the year 2005-06. The number of COD references made during the year 2005-06 was 107.

4.8.1 Special Leave Petitions:

The Legal Wing of the Directorate General of Legal & Research receives proposals for filing Special Leave petitions in the Supreme Court from the field formation of the Department and processes the same. The number of cases processed for SLPs were as under:

A	Number of SLP received and processed during the period 01.04.2006 to 31.12.2006	928
B	Number of SLP received and processed during the period 26.09.2005 to 31.03.2006	662

The Research Wing of the Directorate General of Legal & Research is presently engaged in the evaluation of tax profile of the country's major corporate taxpayers.

4.9 Legislative Measures

Finance Act 2006

Highlights of the performance and achievements during the year 2006-07 along with actions taken on the Budget 2006-07 announcements

The budget of 2006-07 kept the tax rates moderate and stable as there was no change in the rates of personal income tax or corporate income tax. No new taxes were imposed. However, for equity, there was marginal revision in certain tax rates. The rate under Minimum Alternate Tax (MAT) was increased from 7.5 per cent of book profits to 10 per cent. Long-term capital gains arising out of securities and subject to Securities Transaction Tax were also included in calculating book profits. MAT-paying companies were allowed to take credit for MAT over seven years instead of the five years as earlier allowed. Adjustment of MAT credit was also allowed while calculating interest liability. Following other steps were taken by the budget of 2006-07 in the area of direct taxes -

(i) In order to tax unaccounted money being contributed to charitable and religious organizations by way of anonymous donations, such donations have been brought to tax at the rate of thirty per cent in the hands of certain charitable and religious organizations in certain cases. Wholly religious organizations have been kept out of the purview of this provision.

(ii) Section 10(23G) exempted certain income of an infrastructure capital fund/ company/co-operative bank from investments made on or after 1.6.1998, in any enterprise or undertaking engaged in infrastructure projects or other eligible business. The section has been omitted so as to make income from existing as well as future investments in infrastructure projects taxable.

(iii) Tax exemption available to any income of a notified Investor Protection Fund has been restricted to any income by way of contributions received from recognized stock exchanges and the members thereof.

(iv) Tax exemption has been provided to any specified income arising to a notified non-profit body or authority established, constituted or appointed under a treaty or agreement entered into by the Central Government with two or more countries or a convention signed by the Central Government.

(v) In order to bring the tax treatment of MLAs at par with that of MPs, Constituency Allowance received by any MLA has been fully exempted.

(vi) To plug revenue leakages, interest on any loan or borrowing or advance converted into a loan or borrowing or advance not to be treated as actual payment and not to be allowed as deduction in the computation of income of a business concern.

(vii) With a view to raise tax revenues and also to channelise funds towards focused development of roads, highways, and rural electrification infrastructure, the provisions of section 54EC of the Income-tax Act have been amended so as to restrict the benefit of tax exemption under the said section in respect of long-term capital gains invested on or after 01.04.2006 in the notified bonds of National Highways Authority of India (NHAI) and Rural Electrification Corporation Limited (REC).

(viii) The provisions of section 54ED have been amended so as to restrict the benefit of the said section only in respect of capital gain arising on or before 31st March, 2006 because this section, consequent upon the levy of the Securities Transaction Tax (STT), had lost its relevance.

(ix) Any sum paid outside India and eligible for relief of tax or deduction from the income-tax payable is not to be allowed as deduction in the computation of income. Only credit in respect of income-tax paid in a foreign country will continue to be allowed.

(x) Credit for payment of minimum alternate tax and tax paid in a country outside India to be allowed and accordingly lesser interest to be charged on account of such credit.

(xi) It has been provided that any specified association in India may enter into an agreement for grant of double taxation relief and avoidance of double taxation with any specified association in the specified territory outside India and that the Central Government may, by notification in the Official Gazette, make necessary provisions for adopting and implementing such agreement.

(xii) In the budget of 2005-06, the provisions relating to savings were recast. However, fixed deposits in banks were not included as one of the avenues for savings in terms of section 80C. To create a level playing field among banks and other financial institutions, investments in fixed deposits in scheduled banks for a term of not less than five years, in accordance with a scheme to be framed and notified by the Central Government, were included in section 80C of the Income Tax Act vide Finance Act, 2006. Accordingly, the Bank Term Deposit Scheme, 2006 has been notified on 28-7-2006.

(xiii) The limit of Rs.10,000 in respect of contribution to certain pension funds in section 80CCC was removed, subject to the overall ceiling of Rs.100,000 as prescribed under section 80CCE.

(xiv) Cooperative banks were excluded from the scope of section 80P of the Income Tax Act and thus their profits were made taxable. However, Primary Agricultural Credit Societies (PACS) and Primary Cooperative Agricultural and Rural Development Banks (PCARDB) stand on a special footing and will continue to be exempt from tax under section 80P of the Income Tax Act.

(xv) Under the provisions of the proviso to sub-section (1) of section 139 of the Income-tax Act (popularly known as one by six scheme), every person fulfilling any of the six expenditure/asset criteria listed therein, is required to furnish his return of income, even if his total income does not exceed the threshold limit. The said scheme has been withdrawn with effect from 01.04.2006.

(xvi) With a view to widen the tax base, section 139A of the Income-tax Act has been amended so as provide for compulsory obtaining of the permanent account number (PAN) before entering into prescribed transactions, and also to allot PAN suo-motu in certain cases.

(xvii) Provisions of section 139 of the Income-tax Act were amended to prescribe annexure-less return forms so that returns could be furnished electronically. New return forms have been notified and it has been made compulsory for corporate taxpayers to furnish the return electronically in the new form. However, it is optional for other class of taxpayers to furnish the return electronically.

(xviii) A new provision in the Income-tax Act was introduced so as to notify a Scheme for preparing and filing the returns of income by small and marginal taxpayers through Tax Return Preparers. The Scheme has been notified on 28.11.2006.

(xix) A system of quarterly statements of TDS and TCS was introduced earlier under the provisions of sub-section (3) of section 200 and the proviso to sub-section (3) of section 206C in respect of taxes deducted or collected on or after 1st April, 2005. With the system of quarterly statements in place, the requirement of furnishing annual TDS and annual TCS returns was rendered superfluous. Therefore, the requirement of furnishing of the annual return of tax deducted and collected at source in respect of taxes deducted or collected on or after 1st April, 2005 has been dispensed with.

(xx) Penalties have been introduced in respect of false quoting of Tax Deduction and Collection Account Number (TAN) and for failure to collect tax at source.

(xxi) With a view to mobilize additional resources and plug revenue leakages on account of concessional capital gains tax treatment in respect of securities chargeable to Securities Transaction Tax (STT), the rates of STT have been increased by 25 per cent in respect of all transactions chargeable to STT with effect from 01.06.2006.

(xxii) In the budget 2005-06, a new tax was introduced, namely, Fringe Benefit Tax (FBT), by inserting Chapter XII-H in the Income Tax Act. The provisions of FBT were further rationalized by making the following changes:

a) Valuation of the fringe benefit arising from 'tour and travel' reduced to 5 per cent from 20 per cent;

b) Valuation of the fringe benefit arising from 'hospitality' and 'use of hotel boarding and lodging facilities', in the case of airline companies and shipping industry, reduced to 5 per cent from 20 per cent;

c) Exclusion of the expenses on free samples of medicines and of medical equipment distributed to doctors from the purview of FBT;

d) Exclusion of the expenses incurred on brand ambassador and celebrity endorsement from the purview of FBT; and

e) The provisions of FBT would apply to contributions by an employer to an approved superannuation fund only if the contribution is in excess of Rs.100,000 per year per employee.

4.10 International Taxation

4.10.1 Double Taxation Avoidance Agreements (DTAAs):

International juridical double taxation occurs as a result of imposition of comparable taxes in two or more States on the same tax payer in respect of the same subject matter and for identical periods. This double taxation is sought to be avoided through the instrument of a bilateral tax treaty between two States. The Double Taxation Avoidance Agreements (DTAA) contain a set of distributive rules for the division of tax revenue between two States from different streams of income including business income, interest, dividends, fees for technical services, capital gains, pensions. These DTAAs, also referred to as Double Taxation Avoidance Convention (DTACs), serve as a symbol of good commercial relations between two countries and help in attracting foreign investments and to avoid distortion in trade and investment worldwide. A DTAA is a bilateral agreement between two Contracting States and indicates the mutual agreement with regard to avoidance of double taxation, relief from taxation, exchange of information and assistance in collection of taxes. They are based on the principle of reciprocity. DTAAs provide for alternate dispute redressal mechanism through the Mutual Agreement Procedure (MAP).

4.10.2 Status of India's Notified DTAAs/DTACs:

As on date, India has notified comprehensive DTAAs/DTACs, covering all sources of income with 70 countries. India also has limited air and shipping agreements with 10 countries.

4.10.3 Achievements during the period January to December 2006:

a) The DTAA between India and Saudi Arabia was notified vide Notification No.GSR 645(E) dated 17/10/06.

b) A comprehensive DTAA between India and Kuwait was signed on 15th June 2006 at New Delhi and between India and Botswana was signed on 8th December 2006 at New Delhi.

c) Protocol amending the agreement between the Government of UAE and Government of India for the Avoidance of Double Taxation with respect to taxes on income was finalised on 11th October 2006 at New Delhi.

d) Negotiations with Venezuela and Myanmar were finalized and the proposed Agreement has been initialed at the official level.

e) Negotiations for finalisation of comprehensive DTAAs/ DTACs were held with the delegations from Lithuania, Latvia, Luxembourg and Mexico.

f) Negotiations for initiating comprehensive DTAAs/ DTACs were held with Myanmar, Taiwan, Ethiopia, Mozambique, Uruguay, Venezuela, Iran and Saudi Arabia.

g) Review of existing DTAAs/DTACs with Egypt, Kenya, Malaysia and Sri Lanka were undertaken. The DTAA with Sri Lanka has been concluded.

h) Negotiations for revision of certain articles of existing DTAAs/DTACs were held with Cyprus and Finland. The taxation at source on dividends, interest, royalties and fees for technical services has been brought down to 10 per cent in the treaty with Japan through an amending Protocol vide notification No. S.O. 1136 (E) dated 19th July, 2006.

i) The taxation at source on royalties and fees for technical services has been brought down to 10 per cent in the treaty with Norway vide notification No. G.S.R. 757(E). dated 15th December, 2006.

j) Meetings under Mutual Agreement Procedure (MAP) were held with France, Japan and USA. A number of cases were resolved during the meetings.

k) In a number of cases requests have been made to various foreign tax authorities under Exchange of Information. The information received has been utilized during the course of assessment and investigation by the field authorities. In some cases taxes have been collected in India and remitted to the foreign tax authorities towards tax arrears of taxpayers in those countries.

l) At the invitation of the OECD, India has become an Observer in the Organisation for Economic Cooperation and Development's (OECD) Committee on Fiscal Affairs.

4.10.4 Directorate of International Taxation

With the globalisation of world trade and liberalization of India's economic policy, there has been tremendous increase in participation of foreign companies and non-residents in the business and investments in India. Tax implications play vital part in such investment decisions. This, in turn, has activated the study and interpretation of tax treaties with several countries both on the part of non-resident taxpayers as also tax administration in India. The new scenario necessitated the creation of specialized Directorates for functional uniformity. Therefore, four Directorates of International Taxation were set up at Delhi, Mumbai, Kolkata, Chennai and Bangalore vide CBDT Notification (S.O. 881 (E) dated 14th September, 2001. These Directorates come under the control and Supervision of DGIT, International Taxation, New Delhi. All functions relating to assessment of foreign companies and other non-residents as well as withholding tax from payments made to them were assigned to these Directorates. This confidence has been amply rewarded as evident from the rapid growth of tax collections from foreign entities from about Rs.1,450 crore in 2002-03 to Rs.8,500 crore in 2005-06.

4.10.5 Directorate of Transfer Pricing

The increasing participation of multi-national groups in economic activities in the country has also given rise to new and complex issues emerging from transactions entered into between two or more enterprises belonging to the same multi-national group. The profits derived by such enterprises can be controlled by manipulating the price charged and paid in such intra-group transactions, thereby, leading to erosion of tax revenues.

With a view to provide a detailed statutory framework which can lead to computation of reasonable, fair and equitable profits and tax in India, in the case of such multinational enterprises, the Finance Act 2001 has substituted section 92 with a new section, and has introduced new sections 92A to 92F in the Income-tax Act. The basic intention underlying the new transfer pricing regulations is to prevent shifting out of profits from international transactions from the country thereby eroding the country's tax base.

After the introduction of detailed transfer pricing regulations, the CBDT decided to have the complex functions of transfer pricing audits done by special cells. Five Directorates of Transfer Pricing were accordingly set up (Delhi Mumbai, Bangalore, Chennai and Kolkata) in 2002 under the jurisdiction of the DGIT, International Taxation, New Delhi. During the year 2005-06, audit of such cases led to adjustment of prices of transferred goods or services to the tune of Rs. 2,069 crore.

4.11 Revenue Audit & Public Accounts Committee

4.11.1 Duly recognizing the role played by C&AG and the Public Accounts Committee in a democratic system the Draft Paragraphs (DPs) and System Appraisals proposed for inclusion in the C&AG Report, are examined in the A&PAC Division of the CBDT. Comments of the Ministry (compiled in consultation with the comments of the field authorities) are furnished to the C&AG, besides furnishing information to the

Public Accounts Committee by way of reply to the Advance Questionnaire and the Questions arising after the Oral Evidence taken by the Committee.

4.11.2 During the year 2006 (from 1st January 2006 to 31st December 2006), the C&AG called for the comments of the Ministry on 905 DPs proposed for inclusion in the C&AG's Report for the year 2005-2006. Replies to 498 such DPs have already been furnished to C&AG. C&AG report No. 7 and 8 of 2006 (year ending March, 2005) were presented before the Parliament on 19.5.2006. Finally 683 Draft Paras were included in the C&AG's Report for the year 2004-2005 (No. 8 of 2006). Action taken Notes (ATNs) on these Paras are being sent to PAC/Monitoring Cell in consultation with C&AG.

4.11.3 Audit Report Year-wise disposal of ATNs/ DPs during the period 1st January 2006 to 15th January 2007 is given in Table 3.26.

4.11.4 **System reviews for inclusion in C&AG Report of 2007 have been received on the following subjects:**

i) "Assessment of Sports Associations/Institutions and Sports Personalities"

ii) Review on "Operation of TDS/TCS Schemes".

iii) Review on "Assessments of selected companies in Computer Software, Automobile and ancillaries, Steel and Trading Sectors"

All these reviews were circulated in CBDT and field formations for comments and replies on substantive issues of these reviews have already been furnished to C&AG on the draft Audit Reports. During the year, reply to the System Review on the illustrative cases which are not covered in the Advance Questionnaire on "Operation of the Scheme of taxation of Companies under Special Provisions of IT Act (Section 115JA/JB)" included in C&AG Report No.13 of 2004 has been sent to C&AG.

4.11.5 The 29th Report of Public Accounts Committee (14th Lok Sabha) containing observations/recommendation on the system review on "Restructuring of the Income Tax Department " has been received from the Lok Sabha Secretariat. The same has been examined and report/action taken on the observations/recommendations of the Committee has been called for from the concerned offices. Action Taken Report will be forwarded shortly to the Lok Sabha Secretariat. Replies to Para No. 10 & 13 of the 15th Report of the PAC (14th Lok Sabha) on Action Taken Note on the 55th Report of PAC (13th Lok Sabha) relating to Refunds under the Income Tax Act, 1961 were also sent to Lok Sabha Secretariat.

4.11.6 The PAC has selected the following Paras/System Reviews for examination and Advance Questionnaires were received from the Lok Sabha Secretariat on the following subjects:

(i) On paras 2.15.2 & 2.15.3 of C&AG Report No.8 of 2006 "Incorrect Procedure of accounting for interest paid on Refunds".

(ii) System Review on " Review on efficiency of summary assessment scheme and process of selection of cases for scrutiny" and

(iii) On Para No. 3.8.1 of C&AG's Report no. 8 of 2006 (Direct Taxes) relating to "Mistake in Computation of Business Income."

Replies to all these advance questionnaires were forwarded to the Lok Sabha Secretariat well within stipulated time in August/September, 2006

4.11.7 A single consolidated Instruction (No. 9 of 2006) incorporating the entire gamut of receipt/revenue audit superseding all the previously existing Instructions on the subject was issued effective from 1.12.2006.

4.11.8 **Specified Authority u/s 72(A) of the IT Act:** 116th Meeting of the Specified Authority was held on 6th February 2006 in which 3 cases were discussed. Out of these 3 cases, 2 cases were recommended for approval and one case was rejected.

4.12 Inspection, Examinations & Audit

The Directorate of Income-tax (Income-tax) is an attached office of the CBDT under the administrative control of the Department of Revenue, Ministry of Finance. It is headed by a Director of Income-tax and comprises two wings, namely, Inspection Wing and Examination Wing. Similarly an officer of the rank of Director heads the Audit Wing.

4.12.1Inspection work

Inspection is an effective too to maintain a high quality of

Table 3.26

Financial year	No. of reports received	No. of reports scrutinized
2001-02	314	175
2002-03	675	450
2003-04	2,800	387
2004-05	3,091	-
2005-06	2,458	428
2006-07(till Dec 06)	2,184	128

work in the areas of assessment, recovery, investigation, representation of Department's case before ITAT, record management and grievance redressal. It is also an effective instrument of preventive vigilance. A new system of inspections was introduced by the CBDT from 1.10.2002, whereby Range offices formed the basic units to be inspected by the Commissioners / Directors of Income Tax. At present, two categories of inspections are conducted in a financial year, viz, Systems Inspection which includes inspection of records and the disposal of various contingent proceedings like rectification, disposal of demands, disposal of appeal effects, etc. and inspection of quality of assessment, recovery, investigation, representation of Department's case before ITAT, etc. The inspections are reviewed by the respective Chief Commissioners / Directors General, and reports forwarded to the Directorate of Inspection. The Directorate of Income-tax (Income-tax), which monitors the progress of inspections, examines and reviews the inspection reports and prepares and publishes on behalf of the CBDT an 'Annual Review of Inspections'. The Directorate suggests remedial measures, if any, to protect the interest of revenue and issues necessary guidelines or clarifications on reference from field formations or on its own accord. During FY 2006-07, the Directorate has undertaken a 'Comprehensive Review of the New System of Inspection', for which a detailed questionnaire has been issued in November 2006.

Inspections done since 2001-02 onwards till 31.12.2006 is given in Table 3.27.

4.12.2Examination work

The main function of the Examination Wing is to conduct Departmental Examination for IRS (Probs.) and other gazetted and non-gazetted staff of Income Tax Department. Besides conducting examinations for various cadres of the Department and declaring their results, the examination wing also reviews and interprets the rules and syllabi of various examinations, implements the policy of the government regarding departmental examinations and also deals with the complaints, grievances and representations of the candidates who have appeared in various Departmental Examinations conducted by Directorate.

Activities during the year:

(i) The second Departmental Examination for ACIT (Probs.)-58th Batch was held in the month of February 2006 and the result was declared in the month of June 2006.

(ii) The Supplementary Examination of the first Departmental Examination for ACIT (Probs.) 58th Batch was conducted in the month of March 2006 and result thereof was declared in the month of May 2006.

(iii) The first Departmental Examination for ACIT (Probs.)-59th Batch was held in the month of August 2006 and the result was declared on 15th December 2006.

(iv) The Departmental Examinations for Income Tax Officers, Income Tax Inspectors and Ministerial Staff-2006 were conducted in the month of October, 2006 on the basis of old syllabus & eligibility criteria after a gap of three years. The revised Rules/Syllabus 2004 are under finalization with the CBDT.

(v) 17 CAT cases, which were filed by the candidates on different issues with various benches were attended to during the year.

The Departmental Examinations for the IRS (Probs.) and for members of the staff of the Income Tax Department are being conducted in a fair and impartial manner. The Directorate has also been constantly reviewing the examination rules and policy/syllabus taking into account the new development in field of Income Tax.

4.12.3 Audit work

I Internal Audit working

In the new system of Internal Audit, the audit is being conducted on a "Chain Basis" as a continuous process.

Table 3.27

Audit Report Year	No. of DPs replied	No. of ATNs/Revised ATNs sent to C&AG	No. of ATNS sent to Monitoring Cell after receiving C&AG's vetting comments
1998-1999	Nil	3	3
1999-2000	1	Nil	Nil
2000-2001	2	5	3
2001-2002	15	9	1
2002-2003	15	10	41
2003-2004	274	544	180
2004-2005	408	Nil	Nil
2005-2006	498	—	—
Total	1213	571	228

Table 3.28				
		2004-2005	2005-2006	2006-2007 (Upto Sept.06*)
1	Total No. of Internal Audit cases in which mistakes (Major) were detected	3869(Arrear) 1479(Current)	2786(Arrear) 806(Current)	2248(Arrears) 281(Current)
2	Revenue effect of (1) above (in thousand)	6777065(Arrear) 2633127(Current)	17584223 (Arrear) 3717705 (Current)	6495386(Arrear) 148660(Current)
3	No. of Internal Audit objections settled (a) Major (Arrear + Current) (b) Minor (Arrear + Current)	 2432 6796	 1533 5846	 389 1143
4.	Revenue effect of (3) above (in thousand) (a) Major (Arrear+Current) (b) Minor (Arrear+Current)	 4851682 67201	 1707857 408188	 120877 42032

Officers of the rank of Additional / Joint Commissioners and Assessing Officers perform twin functions of Auditors and also Auditees. During the year some modifications have been made to make the Chain Audit System more effective and quality oriented. During the year (up to September, 2006), 281 cases of irregularities were detected by the chain audit system with a total tax effect of Rs.1486.60 lakh.

A comparative statement on the performance for the period of April to September, 2005 with the performance during the two earlier financial years is given in Table 3.28.

II Quality Audit

A system of Quality Audit by senior officer of the department was introduced in the year 2005. Out of 1200 cases selected for quality Audit last year 852 were audited till November 2006. The balance is made up of those cases the disposal of which is pending due to non-completion of scrutiny assessments. This pendency of 348 cases is likely to be completed in the near future, once the dead line of 31st December for completion of scrutiny assessment is closed.

III Proposal for New system of Internal Audit

Detailed proposal for a new Internal Audit set-up was sent on 27.9.2006 to the Board to be put in place by 31.3.07. This proposal should meet the criticism by PAC & C&AG of the short comings in the present audit set up.

IV Processing of Work relating to Revenue Audit

i) **C&AG Report 2004-05**: 683 Draft Pares which were included in the Comptroller & Auditor General's Report for 2004-05 were processed and analysed. Decision of CBDT in respect of audit objections were received in 366 cases, out of which the Board had accepted objections in 310 cases, and in 56 cases the objections were not accepted. Action Taken Notes are being sent to CBDT in these cases.

ii) **C&AG Report 2005-06**: 905 Draft Pares which were proposed to be included in the Comptroller & Auditor General's Report for 2005-06, have been received, and these are under process at the Board level As soon as the acceptance of the Draft Para or otherwise is intimated by the CBDT, the ATNs shall finalized by this Directorate.

iii) **Review and Publications**: During 2005-06, 15 Quarterly Reviews, for the Quarters ending, March, June and September, 2006 were prepared. Out of these 6 Reviews pertained to the Internal Audit Objections, 6 Reviews pertained to Receipt Audit Objections and remaining 3 Reviews pertained to auditable cases indicating their disposal as well as the position of settlement of Major and minor audit objections

iv) **Statement XVI:** Statistical data for inclusion in the Report of C&AG for the year 2005-06 (Statement XVI) was sent to the Board.

4.13 Recovery Work

4.13.1 Functions / Working of DIT (Recovery)

The Directorate of Income Tax (Recovery) is entrusted with collection, compilation and collation of data relating to recovery of tax arrears of Income tax and Wealth tax involving demands of Rs.1 crore and above (rupees one lakh and above in cases of Film dossiers); monitoring the work of collection/ reduction of arrear demand, preparation of reviews and give suggestions for further action; analysis of quarterly dossiers of Rs.25 crore and above to assist in monitoring of high demand cases by the CBDT; inspection of field offices for speeding up collection/reduction of tax arrears; compilation and analysis of statistical data and furnishing of material to the CBDT for replies to various Parliament Questions; processing of write off, partial write off and scaling down of arrear demand proposals; processing of BIFR / AAIFR cases in terms of granting income tax reliefs / concessions under the SIC Act to the sick companies in the process of rehabilitation and assisting the CBDT in policy formulation in recovery / BIFR related matters.

The Directorate monitors the work of recovery as a Task Force constituted by the Finance Minister in 2004.

4.13.2 **Performance during the financial year 2006-07**

(a) **Dossiers:-**The Directorate has a total no. of 5,964 dossiers as on 01.04.2006 as compared to 5,556 dossiers as on 01.04.2005. Reports are obtained for quarter ending 31st March'06, 30th June'06, and 30th Sept'06 and are now due for 31st Dec'06. As a Task Force, the Directorate selects some dossiers for special focus and monitors them more closely with a view to effecting recovery of arrears. During FY 2006-07, 300 dossiers have been selected for special focus. They involved arrear demand of Rs.57,431 crore out of total outstanding demand of Rs.1,17,083 crore. In the current financial year, upto 30th November'06 cash collection out of arrears has been affected at Rs.8,258 crore against target set by the CBDT at Rs.11,741 crore. As the annual target has already been reached to the extent of 70.33 per cent, the budget target of Rs11,741 crore is likely to be achieved. In the immediately preceding financial year 2005-06, cash collection effected out of arrear demand was Rs.8,064 crore against the target of Rs.10,000 crore. In regard to the 300 dossiers selected for special focus, comments and suggestion of the Directorate of Income tax (Recovery) have been sent to 74 concerned Commissioners of Income tax in regard to quarterly dossiers ending 30th Sept'06 and monthly reports received for the period 30th November'06. Cash Collection has been made at Rs.3595 crore from 300 dossiers selected for special focus this year as against Rs.2679 crore made up to 31.03.06 (i.e in full year) out of 450 dossiers selected for monitoring last year.

The target set by the Hon'ble Finance Minister in the Budget speech in February 2006, of cash collection out of arrears of income tax and corporate tax at Rs.7,450 crore already stands exceeded on 30th November'06.

(b) **BIFR Matters:** From April to December 2006, 106 hearings have been attended before BIFR / AAIFR, 837 notices received and 738 replies have been submitted to BIFR. 16 new cases have been received for applications to be given "sick" status. Sanctioned schemes have been received in 22 cases while Draft Rehabilitations Scheme for comments have been received in 27 cases.

(c) **Write-off Matters:** A major task completed this year is that the Manual of Write off of arrears, which was last published in 1998, has been updated up to November 2006, and has been printed and circulated to the field offices. D.Os have been written to some Commissioners intimating the deficiencies in the pending write off proposals and to rectify the same.

(d) **Policy Formulation:** As regards policy formulation on matters relating to BIFR, a note has been forwarded by DIT(Recovery) through DGIT(Admn.) for incorporating certain provisions in Income Tax Act,1961 with a view to simplification of procedure of consideration of reliefs in such cases. A detailed note for steps to be taken for collection of outstanding arrears of taxes and their reflection in a new format of the Central Action Plan –I (CAP-I) Statement was submitted with a view to better presentation of arrears of taxes and work done by the Department.

4.14 Research, Statistics, Publication & Public Relations

4.14.1 The Directorate of Income-tax (Research, Statistics, Publication and Public Relations) is responsible for the Publicity and Public Relations, Printing and Publications, Compilation of Statistics and Implementation of Official Language Policy in the Income Tax Department all over India.

4.14.2 Some of the important works done by this Directorate during the period 1.4.2006 to 21.12.2006 are detailed below:

(a) **Public Relations:**

Publicity campaign on various tax related matter were carried out through print and electronic media. Regular publicity for the various provisions of Income Tax Act, carried out during the year, is publicity for (i) Advance Tax – 15th June, 15th September, 15th December, (ii) Last Date of Filing Return – 31st July, 31st October and 30th November (for corporates), (iii) Tax deducted at source (Quarterly and annual return), (iv) Fringe Benefit Tax (FBT) and Banking Cash Transaction Tax (BCTT) and (v) Annual Information Return (AIR). Apart from the regular publicity on various tax matters, Special publicity on the various facilities for the tax payer was also carried out which includes publicity for (i) Help Centres, (ii) Electronic Filing of Return (e-Filing), (iii) Tax Return Preparer's Scheme (TRPs), (iv) Facility of Filing of Return at Post Office, (v) Electronic Clearance Scheme (ECS) for Income Tax refund. Some informative cum awareness publicity campaign was also carried out during the year, such as (i) De-duplication of PAN, (ii) To Quote the PAN in the return of income, challans and other important correspondence, and (iii) File your *correct* Income Tax Return on time, as the information with regard to specified investments/expenses is available to the Income Tax Department. These ad campaigns were highly effective and appreciated.

The Directorate updated and revised Booklets of Taxpayers' Information Series for sale and distribution to the public from the field offices of the Income Tax Department all over India.

(b) **Printing and Publications:**

(i) The Digest having all Circulars and Instructions by the CBDT from 1.4.1987 to 30.09.2004 developed last year in Compact Disc Version incorporated with a search facility has been updated by addition of Circular & Instructions upto 31.3.2006 and has been supplied to the field officers in the country.

(ii) The Compendium of Double Taxation Avoidance Agreements in 3 Volumes was printed and distributed.

(iii) Income-tax Act, 2006, Income Tax Rules 2006, Wealth Tax Act, 2006 & Wealth Tax Rules, 2006 both in English and Hindi were purchased and distributed to the field officers all over the country.

(iv) The Action Plan for F.Y. 2006-07 has been printed and distributed to all the officers & upto the level of inspector to all the field offices through the office of CCITs.

(v) CBDT Administrative Bulletins, Direct Tax Bulletins & Quarterly Tax Bulletins are being regularly printed for distribution to all the field officers.

(c) **Research and Statistics Wing:**

The Research and Statistics Wing is the nodal authority of the Income Tax Department for collection and compilation of various statistics required for running its Management Information System. The Wing was brought under the function control of the Directorate General of Income Tax (Legal & Research) with effect from 07.12.2006. Earlier it was the part of Directorate of Income Tax (Research, Statistics, Publication & Public Relations).

This Wing collects and compiles a plethora of information on various aspects of Direct Taxes in the prescribed formats from the field establishments of the Department and compiles them both at the micro and the macro level for bringing out reports in the prescribed format for use of the Board to Plan various policies and directives on Direct Taxes. Currently, the Research and Statistics Wing brings out various reports of varying periodicity. These are enumerated below:

Monthly Report

1. Monthly Report on Appeal Statistics

Quarterly Reports

1. Quarterly Progress Report on Income Tax, Corporation Tax & Other Taxes
2. Quarterly Progress Report on Tax Recovery Officer (TRO) Work
3. Quarterly Progress Report on Aggregation of Agriculture Income with Non-Agriculture Income
4. Quarterly Progress Report on Appeals, References and Writs before ITAT/HC/SC
5. Quarterly Progress Report on Write-off of Arrear Demand of Rs. 10,000/- and below

Annual Reports

1. List of 100 Top Income Tax and Wealth Tax Payers
2. Report on Direct Taxes for inclusion in the C&AG's Report

Estimation Tax Expenditure Arising out of Various Exemptions, Relief and Rebates under Relevant Tax Laws'

Research & Statistics Wing has been given the responsibility to conduct an study to 'Estimate Tax Expenditure Arising out of Various Exemptions, Relief and Rebates under Relevant Tax Laws by the Central Board of Direct Taxes. The Wing has finalized Schedules and Instructions thereof for ITOs and the same has been circulated to all concerned. 15,000 filled up schedules from the field formations have been received out of proposed schedules of 3,00,000.

Creation of Data Base for Major Corporate Tax Payers

This is another study is being conducted by the Wing to establish a correlation between indirect tax payment and direct tax payment made by the corporate bodies so as to take corrective mid term measures accordingly for better tax realization.

(d) **Implementation of Official Language Policy:**

(i) Two quarterly meetings of Official Language Implementation Committee of the Official Language Division of CBDT held during this period under the Chairmanship of Member (P) on 28-04-2006 and 10-11-2006 respectively, in which Cadre Controlling CCsIT/their representatives participated and the matter discussed regarding Implementation of Official Language policy, Annual Programme for this Policy, Hindi Language/ Stenography/Typing etc.

(ii) During this period, Parliamentary Committee of Official Language inspected the O/o CCIT, Goa, O/o the Additional Commissioner of Income Tax, Jhansi and Income Tax office Darjeeling. This Directorate co-ordinated the inspections, helped in preparing the questionnaire and dealt with the correspondence regarding the assurances given to the Committee by the respective offices. Director of Income Tax (RSP&PR), Deputy Director (OL) (Hqrs.Admn.) and Assistant Director (OL) (Admn.) represented the Board in these inspection meetings.

(iii) Director General (Admn.), Director of Income Tax (RSP&PR), Deputy Director (OL) (Hqrs. Admn.) and Assistant Director (OL) (Admn.) inspected the various offices regarding the progressive use of Hindi. Inspected offices include offices of the CCsIT Pune, Coimbatore, Ahmedabad, Lucknow, Kanpur, Chandigarh, Panchkula, Dehradun and Directorate General of Income Tax (Inv.) Lucknow, Kanpur and Pune.

(iv) Three days All India Seminar for Hindi Translators of Income Tax Department was organised at Shimla in May, 2006.

(v) Progress of the Implementation of Annual Programme regarding Implementation of Official Language in the Income Tax Department for the year 2005-06 reviewed and Annual Programme for the year 2006-07 circulated amongst the Income Tax Offices with directions for compliance.

(vi) The scheme of giving cash award for noting and drafting in Hindi implemented for the period 1-04-2006 to 31-03-2007.

(vii) Revised updated edition of Direct Taxes Glossary prepared and is under print.

(viii) Letters/ Circulars received from the Department of Official Language, Ministry of Finance, Ministry of Home Affairs circulated amongst the O/o CcsIT and DGs for follow up action and further circulation.

(ix) Quarterly Reports in respect or progressive use of Hindi in the field offices of the Income Tax Departments called for, consolidated and reviewed. The consolidated reports were sent to the Department of Revenue. Quarterly Reports received from the various regions were reviewed regularly.

(x) Proposal of restructuring of Official Language cadre and revision of pay scales of AD(OL), Senior and Junior Hindi translators were sent to the Board for further action. The matter is still pending.

(xi) In view of the revised norms 900 additional Hindi posts were worked out for the Official Language cadre of Income Tax Department and a proposal was submitted for creation of 1/3 (300) posts within the year which is pending in the Board.

(xii) A proposal has been submitted to the Board regarding upgradation of two posts to the post of Joint Director (OL) out of existing five posts of Deputy Director (OL) and 19 posts of Assistant Directors (OL) to the cadre of Deputy Directors (OL). This proposal is also pending.

(xiii) 5th meeting of Official Language Implementation Committee of Directorate of Income Tax (RSP&PR) and (recovery) was convened in December, 2006.

(xiv) A three days Hindi Workshop was organised on 10, 11 and 12-05-2006 in this Directorate.

(xv) Hindi Fortnight organised w.e.f. 14-09-2006 to 28-09-2006. Several Competitions were held and prizes distributed to the winners during this period. A Hindi workshop was also organised during this fortnight. Necessary instructions were issued for organising Hindi Day/Week/Fortnight in Income Tax Offices all over the country.

(xvi) Advertisement issued by the Public Relation Section of this Directorate in English newspapers were simultaneously translated into Hindi/Hindi translation vetted for publication in leading Hindi newspapers.

(xvii) Director of Income Tax (RSP&PR) participated in the quarterly meeting of Official Language Implementation Committee of Department of Revenue.

(xviii) Draft and Evidence Sub-Committee of Committee of Parliament on Official Language will have discussion with Chief Commissioner of Income Tax-II, Bangalore and RTI Bangalore. Deputy Director (OL) (Hqrs Admn.) went to Bangalore to provide assistance to them in filling up questionnaire on 18-12-2006 & 19-12-2006.

4.15 Organisation & Management Services (O&MS)

4.15.1 This Directorate of O&MS is an attached office of the Central Board of Direct Taxes, and carries out continuous review of procedures, administrative systems and work/ staffing norms, besides providing other policy management services as an internal consultant of the CBDT. The Directorate also reviews the Central Action Plan, by regularly monitoring the performance of the field offices vis-a-vis the targets set in the Action Plan, through CAP-I statements showing the figures of cash collection, reduction of arrears and current demand of Corporation Tax/Income Tax and CAP-II statements showing the progressive workload and disposal of Income Tax assessments on monthly basis. This Directorate also monitors the performance of the field offices vis-a-vis the targets, on a quarterly basis.

4.15.2 Some of the important assignments completed, are mentioned below :-

(i) The Power Point presentations on “Manpower Requirement of Income Tax Department” were made in the Board.

(ii) Compilation of half-yearly statements on sanctioned and working strengths of officers and staff in respect of different Cadre Controlling Chief Commissioners of Income Tax.

(iii) Various comparative statistical statements/tables, highlighting different parameters of CAP-I and CAP-II, in respect of all the CCITs/ DGITs(Inv.) were prepared as desired by Board.

(iv) Preparation of centre-wise & month-wise projections for workload of centralised processing of returns.

(v) A report on “Analysis of ‘Arrear Demands’ and ‘Demands difficult to recover”.

(vi) Preparation of the blue print for “Sevottam” Scheme of Govt. of India.

(vii) Monitoring of implementation of Right to Information Act, 2005 in the Income Tax Department.

(viii) Dealing with matters/queries/doubts relating to implementation of Right to Information Act, 2005 as DOMS has been declared the Nodal Authority for clarifying doubts etc. relating to this Act.

4.16 Vigilance

4.16.1 The Vigilance setup of the Income Tax Department is headed by the Director General of Income Tax(Vig.), who is also the CVO of the Income Tax Department. The Directorate General has its headquarters at New Delhi. Under him, there are four Directorates of Income Tax (Vig.) each looking after the matter pertaining to North, South, West & East Zones, headed by a Director of Income Tax(Vig.) with headquarters at Delhi, Mumbai, Chennai and Kolkata respectively. The four Directors of Income Tax (Vig.) are also the Deputy CVOs of the zone they head for vigilance purposes. The Director General of Income Tax (Vig.) is under the direct administrative control of CBDT and oversees the processing of vigilance cases, mainly against the Gazetted Officers of the Income Tax Department. The basic sources of information pertaining to Vigilance matters are signed complaints from members of public, VIP references, references from CVC and other Departments/Agencies, periodical inspections etc.

4.16.2 In order to streamline the procedure and update knowledge of its field functionaries, vigilance conferences are held at the national and regional levels each year. Issues of importance such as Preparation of charge sheet, Investigation of complaints, Preventive vigilance, Inquiry Proceedings, Vigilance Inspections and the Right to Information Act, 2005 etc were taken up for deliberation keeping in view the changing scenario in work culture and ethos in the background of advancing liberalization and the recently introduced Right To Information Act, 2005

4.17 Training

4.17.1 The National Academy of Direct Taxes is the apex institution for training the officers and staff of the Income Tax Department in India. Its basic task is to provide professional training to the officers joining the Indian Revenue Service. The Academy also conducts in-service training courses for officers and staff of the Income Tax Department and other Indian and foreign organizations in coordination with its 7 Regional Training Institutes (RTIs) and 26 Ministerial Staff Training Units (MSTUs). The Academy is headed by a Director General of Income Tax (Training), who is of the rank of Additional Secretary to the Government of India. The Director General is assisted by two Additional Director Generals and a team of other officers including seven Additional Directors / Joint Directors and five Deputy Directors / Assistant Directors and two Assistant Directors (OL).There are seven Regional Training Institutes at Bangalore, Kolkata, Lucknow, Mumbai, Chennai, Chandigarh and Ahmedabad and 26 Ministerial Staff Training Units spread over the country. The Regional Training Institute at Hazaribagh was closed vide order F.No.41015/ 41/2003-Ad-VII dated 21 Oct 2005.The Regional Training Institutes are headed by a Director of Income Tax who are assisted by the officers of the rank of Additional Directors/ Joint Directors, Deputy Directors / Assistant Directors and Income Tax Officers. They also monitor the working of the Ministerial Staff Training Units of their region.

4.17.2 In addition to the Induction Course for the IRS Officer Trainees, the Academy also conducts a number of courses for officers of different ranks. These include various courses on Taxation, Law and other related subjects including a number of Management Development Programmes. Some Important courses held during the year were Course on Mergers and Acquisitions, OECD Course on Financial Markets, OECD Course on Transfer Pricing, Change management seminar for leaders, Course on Direct taxes for probationary officers of the Indian Customs and Central Excise Service, Course on Recovery for officers of Employees State Insurance Corporation , Course on Tax Administration for Tax Officers of Oman and Workshop on Right to Information Act. The Academy has made a conscious effort to sensitize the trainees and other officers on important areas such as gender issues at workplace, ethics/values in public life, image building, citizens' charter and promotion of Official language.The training methodology, apart from lectures by both in-house and guest faculty members, includes panel discussions, case studies, group discussions, workshops, seminars, role-plays and simulation exercises and tutorials.

4.17.3 Looking at the strong needs for e-learning, in the month of August, 2006, resource material related to the induction training, in-service courses, staff training and ITD applications was made available to the officer trainees at the Academy as well as officers and staff of the Department through "e-adhyayan" facility hosted on the NADT website (www.nadt.gov.in). All the officers and staff of the Department can use this facility by logging on the website and registering themselves. More resource material will be loaded on the facility in the coming days.This facility is expected to go a long way in capturing organizational knowledge and making it available to all the officers and staff.

4.17.4 In June 2006, NADT had entered into a MoU with NALSAR University of Law, Hyderabad for award of Master's degree in Taxation and Business Laws to the officer trainees who undergo induction training at the Academy. Enrolment to the programme is optional and any officer trainee opting for this programme has to undertake a research project of six months' duration, apart from the training at the Academy. The tie-up is aimed at getting due recognition to the rigorous training for 16 months undertaken by the officer trainees at the Academy. As part of the MoU, from the 59th batch onwards, the teaching and provision of resource material on topics of business laws are undertaken by NALSAR University of Law. This being the first year, the programme was available for the officer trainees of the 59th batch as well as officers of the 58th batch who had undertaken similar training. A total of 139 officers have enrolled for the programme (66 from the 59th batch and 73 from the 58th batch). A panel of research guides (comprising officers from NADT, RTIs and field as well as from faculty of NALSAR) is being prepared and a list of 91 research topics is offered to the candidates opting for this programme. A Joint Consultative Committee (JCC) is also formed for smooth working of the tie-up and the JCC is meeting every quarter to sort out issues. A proposal for allowing senior officers of the Department to enroll for the PhD programmes of NALSAR University of Law is also under examination. Joint research programmes are also being chalked out and in this year; joint research programmes in two areas viz., Money Laundering and IPRs are being launched. The tie-up is also aimed at facilitation of exchange of faculty resources and knowledge resources between the two institutes.

4.18 Exemption

4.18.1 The Director General of Income Tax (Exemption), New Delhi has the Directorates of Income Tax (Exemption), Kolkata, Ahmedabad, Bangalore, Chennai, New Delhi, Hyderabad and Mumbai. The main functions of the office of the Director General of Income-Tax (Exemption) include grant of notifications for grant of exemption u/s 10(23C)(vi) and (via) of the I.T. Act, 1961 to the educational trusts and hospitals respectively. Apart from this, the cases for notification for grant of exemption are recommended to the CBDT for grant of notification to the charitable trusts having importance throughout India or throughout any state or states. Similarly, the cases are recommended for notification of the trusts engaged wholly for public religious purposes or for public religious purposes and charitable purposes. Similarly, reports are sent to the CBDT for notification of institutions engaged in scientific research and social and statistics research. Apart from this, reports are also sent to the CBDT in respect of applications received for notification u/s 10(17A), 10(23), 10(23A) etc. The various Directorates of Income-Tax (Exemption) deal with assessment of Trusts Societies; Institutions etc. registered u/s 12A(a) of the I.T. Act, 1961. The Directors of Income-Tax (Exemption) grant registration u/s 12A and u/s 80G to the eligible applicants.

4.18.2 Reports u/s 10(23C)(iv) and (v) have been sent in 111 cases to the Board as against 49 cases in the last year. Notifications for grant of exemption u/s 10(23C)(vi) and (via) have been granted in 63 cases as against 29 cases in the lat year. During the year reports u/s 35(1)(ii)(iii) were sent in 31 cases to the Board as against 55 cases in the last year. Cash collection out of the arrear demand has been Rs. 41.48 crore as against Rs. 43.51 crore in the last year.

4.19 Infrastructure

The Directorate of Infrastructure is responsible for the development of Department's infrastructure and asset management throughout the country. The functions include drawing up of construction programs on all-India basis and their implementation . These interalia entailed acquisitions of land; construction as well as purchase of office and residential buildings; hiring of office premises; repairs, renovation and maintenance of the departmental buildings.

The infrastructure proposals received from the field formations were processed by the Directorate and recommended to the Competent Authority (Integrated Finance Unit, Standing Finance Committee & Committee for Non-plan Expenditure) for Administrative and Expenditure sanction. In addition, the Directorate formulated the budget for purchase of office and residential accommodations; attended to Parliament questions, VIP and MP references, court cases, and other miscellaneous matters.

5. Narcotics Control Division

5.1 The Department of Revenue is responsible for the administration of Narcotics Drugs and Psychotropic Substances Act 1985 (NDPS Act, 1985) which sets out the statutory framework for drug administration in India. Three separate authorities were earlier established for the purposes of cultivation of opium, manufacture of opiates, and combating drug menace. These three authorities are:

(A) Central Bureau of Narcotics (CBN)

(B) Government Opium & Alkaloid Works (GOAW); Neemuch and Ghazipur under the Chief Controller of Factories;

(C) Narcotics Control Bureau (NCB).

The administrative control of Narcotics Control Bureau has now shifted from Ministry of Finance, Department of Revenue to the Ministry of Home Affairs. The two organizations, namely, CBN and GOAW continue to remain under the administrative control of the Narcotics Control Division, Ministry of Finance, Department of Revenue.

(A) Central Bureau of Narcotics (CBN)

Functions / Working

(a) About Licit Opium Cultivation

5.2 As per Section 5(2) of the NDPS Act 1985 the Narcotics Commissioner shall either himself or through the officers subordinate to him/her exercise all powers and perform all functions relating to superintendents of the cultivation of opium poppy and production of opium and shall also exercise and perform such powers and functions as may be entrusted to him by the Central Government. The licit cultivation of opium is permitted only in certain districts and tehsils as notified by the Central Government.

(b) Control over trade of Narcotics Drugs, Psychotropic Substances and Precursor Chemicals

5.3 India is a signatory to Single Convention on Narcotics Drugs, 1961, the Convention on Psychotropic Substances, 1971 & United Nations Convention against illicit traffic in Narcotics Drugs & Psychotropic Substances of 1988.

5.4 In India control over Narcotic Drugs and Psychotropic Substances and precursor chemicals exercised through the provision of Narcotics Drugs & Psychotropic Substances Act, 1985.

5.5 Narcotics Drugs & Psychotropic Substances can only be exported out of India/ imported into India under an export authorization/ import certificate issued by the Narcotics Commissioner (Rule 58 and Rule 55 of the Narcotics Drugs & Psychotropic Substances Rules 1985).

5.6 CBN is also designated authority for control of import and export of specified precursor chemicals. As per EXIM Policy 'No Objection Certificate' (NOC) is required from Narcotics Commissioner for export of Acetic Anhydride, Ephedrine, Pseudo-Ephedrine, 3-4 Methylene Dioxyphenyl 2 –propanone, 1 – Phenyl, 2 – Propanone, Methyl Ethyl Ketone, Anthralic Acid and Potassium Permanganate. Also under the EXIM policy, the import of Acetic Anhydride, Ephedrine, Pseudo-Ephedrine requires 'NOC' from Narcotics Commissioner. CBN is also assigned the responsibility for issue of registration for import of poppy seed.

(c) Achievements

(i) Satellite Imagery for estimation of licit opium poppy cultivation and damage to poppy crop

5.7 A pilot Project is being developed to estimate the extent of damage to poppy crop through Satellite Imagery. The Opium poppy is very susceptible to weather conditions, Hailstorms, rains and other climatic factors like cold wave which adversely affect the opium yield. A large number of representations had been received in the past from cultivators for relaxation in the minimum qualifying yield (MQY) in such areas. To provide a scientific & rational basis for such relaxation (if any, in MQY), CBN has initiated a pioneering Project with Advanced Data Processing Research Institute (ADRIN), Hyderabad to explore the possibilities as to whether the degree of damage to opium crop due to natural calamities like hailstorm, rain, etc. can be estimated.

5.8 During last year due to cloud cover over areas of interest difficulty was experienced in getting the cloud free optical data. Hence it was envisaged to use the Radar data for opium poppy crop identification as Radar sensors are transparent to cloud. The field data was collected during February, 2006 to undertake a scientific analysis but due to some technical difficulty Radarsat has not acquired the data on chosen dates.

5.9 CBN intends to continue to carry on the above studies to validate the results.

(ii) Implementation of Smart Card Project for Opium Poppy Cultivators

5.10 A project has been undertaken for preparing microprocessor chip based cards of each opium poppy cultivator in the three growing States of Madhya Pradesh, Uttar Pradesh and Rajasthan. The card besides carrying the personal details of the cultivator will contain details of area licensed to him, the measured and test-measured area of his field and the opium produce tendered. Previous years data can also be stored on the chip embedded on the card. The process of collection of data related to cultivation and transmission of the data for further compilation and generation of reports has been successfully tested for the crop year 2004-05 and 2005-06 in two Opium Divisions of Chittorgarh-I and Neemuch-I. The Project is being expanded to cover all the 17 Opium Divisions located in the State of Madhya Pradesh, Rajasthan and Uttar Pradesh.

5.11 The Project once implemented will enable monitoring of various cultivation activities and would also be able to use for policy level decisions including optimum deployment of men and resources to strengthen controls.

(iii) Training imparted to Officers and staff of the Central Bureau of Narcotics

- 21 executive officers of Group ‘B’ & ‘C’ were got trained at NACEN on the course relating to the working of CBN.
- Besides the (a) above, Group ‘A’ officers have also been deputed to undergo various training programme conducted by the NACEN Faridabad.
- Training (Smart Card Project) on Application software installed in the PCs and Refresher training on Hand Held Terminals. A total of 17 officials comprising Inspectors/ Sub-Inspectors/ LDC/UDC were trained at Gwalior in September, 2006.

(iv) Details of Export Authorisation / Import Certificates issued during the year 2005-06 and 2006-07 (upto 13.12.2006)

The performance for the current year and previous year is given in Table 3.29.

(v) Number of Registrations for import of poppy seeds, issued

5.12 The details of registration for import of poppy seeds are as under:

(i) During the year 2005-06 = 133

(ii) During the year 2006-07 (upto 13.12.2006) = 194

(vi) Number of NOCs (No Objection Certificates) issued

5.13 The details of NOCs (No Objection Certificates) issued for the export / import of precursor chemicals are as under :-

No. of NOC issued for export of precursor chemicals (during the year 2005-06) = 1248

No. of NOC issued for export of precursor chemicals (upto 22.12.2006) = 898

No. of NOC issued for import of precursor chemicals (during the year 2005-06) = 85

No. of NOC issued for import of precursor chemicals (up to 22.12.2006) = 60

Central Bureau of Narcotics has also effected many stopped shipment, thus preventing the diversion of precursors from the licit channels to illicit channels.

Table 3.29

Items	Psychotropic Substances		Narcotic Drugs	
	2005-06	2006-07 (upto 13.12.2006)	2005-06	2006-07 (upto 13.12.2006)
No. of Export Authorisation issued	1053	778	163	104
No. of Import Certificate issued	100	47	43	27

(d) Enforcement of NDPS Act 1985

5.14 The CBN undertakes action to prevent the illicit traffic in Narcotics Drugs and Psychotropic Substances and precursor chemicals. It also undertakes investigation and prosecution of drug related offences tracing and freezing of illegally acquired property of drug traffickers derived from illicit drug trafficking forfeiture and confiscation.

5.15 During the year as a result of financial investigation undertaken by the Central Bureau of Narcotics total moveable/ immoveable properties of drug traffickers , associates and their relatives worth Rs. 5504086/- in two cases have been frozen by the competent authority under the provisions of NDPS Act, 1985.

5.16 Central Bureau of Narcotics has also taken action to detain drug traffickers under the provisions of Prevention of Illicit Traffic in Narcotics Drugs and Psychotropic Substances (PITNDPS) Act, 1988 and during the year 2006 (upto 8.12.2006) two proposals in two seizure cases involving 9 persons (i.e. 2+7 respectively) were sent to the detaining authority for considering their detention under the PITNDPS Act, 1988.

5.16 During the year 2006-07 (upto 15.12.2006) 174.325 kg opium, 18.53 kg Heroin, 4.400 kg Morphine, 21.600 kg Charas, 97.8 Liters of Acetic Anhydride, 2.5 kg Alprazolam, 1470 kg Nitrazepam, 3140 kg Ephedrine and 192.48 kg poppy husk were seized. In all 59 cases were booked and 78 persons were arrested under the NDPS Act, 1985. One clandestine laboratory for manufacture of heroin and morphine was also detected and dismantled.

(e) Performance and achievements of CBN during the year 2006

5.17 During the crop year 2005-06, 427 tonnes of opium at 70 degree consistence (Provisional) was procured. The average yield at 70 degree consistence on basis of provisional results received from MP, Rajasthan and UP for the crop year 2005-06 was 62.57, 60.39 & 30.77 kg/hectare respectively. The All India average yield during 2005-06 was 61.21 kg/ hectare at 70 degree consistency (provisional) the highest ever achieved.

(f) Action taken for abatement of pollution as well as environmental initiatives taken

5.18 To make our environmental cleaner and healthier, saplings of various trees were planted in the Narcotics campus at the CBN office in Gwalior as well as in the Unit Headquarters for abatement of environmental pollution. Infrastructure is also being created for rain water harvesting.

B. Government Opium and Alkaloid Works (GOAW) / Chief Controller of Factories (CCF)

5.19 The Government Opium & Alkaloid Works (GOAW) are engaged in the processing of raw opium for export and manufacturing opiate alkaloids through its two Factories viz. Govt. Opium & Alkaloid Works (GOAW) at Ghazipur (U.P.) and Neemuch (M.P.). The Products manufactured at GOAW are mainly used by pharmaceutical industry of India for Preparation of cough syrup, pain relievers and Tablets for terminally ill cancer and HIV patients. The GOAW are administered by a High Powered Body called the “Committee of Management” constituted and notified by the Government of India in 1970. The Additional Secretary (Revenue), Department of Revenue, Ministry of Finance is the Chairman of the Committee of Management. An officer of the rank of Commissioner/Joint Secretary is the Chief Controller of Factories who heads the Organisation and each of the two factories at Neemuch and Ghazipur are managed by a General Manager of the rank of Additional Commissioner/ Director. The Marketing and Finance Cell of the factories is located in New Delhi. Each of the factories comprise two units – the Opium Factory and Alkaloid Works. The Opium Factories receive opium from the fields, store and process it for exports and domestic consumption. The Alkaloid Works are extract alkaloids of pharmacopoial grades from the opium to meet the domestic demand of the pharmaceutical industry. The GOAW have a total work force of about 1400 people at the two opium and alkaloid plants. The work force comprises officials and staff drawn from the Central Board of Excise and Customs, Central Bureau of Narcotics, Central Revenues Control Laboratory, apart from personnel selected by the Union Public Services Commission directly. The security aspects of these factories are looked after by Central Industrial Security Force (CISF), a paramilitary force of the Ministry of Home Affairs.

5.20 The overall performance/achievements for the previous year (2005-06) are given in Table 3.30.

5.21 Similarly, the achievements during the period April to November of current year 2006-2007 with comparative data of previous year for the similar period is given in Table 3.31.

5.22 Air and water pollution, from factories, is kept under strict control by implementing various measures laid down by the Pollution Control Boards of the concerned States. Effluents are disposed as per the guidelines and instructions of the concerned Boards. Both factories have Effluent Treatment Plants.

6. Central Economic Intelligence Bureau

Organisation and Functions:

6.1 The Central Economic Intelligence Bureau is the clearing house of all economic intelligence between various intelligence and enforcement agencies.

6.2 The Bureau is headed by a Special Secretary cum Director General who is assisted by Deputy Director Generals, Joint Secretary (COFEPOSA), Assistant Director Generals, Under Secretaries, Senior Technical Officers and other staff. The Bureau has a sanctioned strength of 113 officers & staff.

6.3 As per the existing charter of CEIB it is required to concentrate on its twin roles of the secretariat for the

Table 3.30: Performance of CCF Organisation for the Year 2005-2006

Sl. No.	Particulars	Unit	Production Targets	Actual Production	Percentage Increase Over Targets
(1)	(2)	(3)	(4)	(5)	(6)
A.	**PRODUCTION**				
1	Drying of opium for Export at 90 C	MT	450	515	14
2	Manufacture of Drugs :				
	a)Codeine Sulphate	kg		203	
	b)Morphine salts	kg		144	
	c)Codeine phosphate	kg		11,408	
	d)Dionine	kg		274	
	e)Pure Thebaine	kg		716	
	f)Noscapine BP	kg		2,814	
	g)Papavarine	kg		1,291	
	h)Pholcodine	kg		–	
	i)Oxcodone	kg		1	
	j)Hydrocodone Bitararate	kg	2		
	Total Finished Drugs	**kg**	**14,960**	**16,853**	**13**
	k) IMO Powder	kg	3,000	3,600	20
	l)IMO Cake	kg	2,201	2,201	–
3	Import (Vendor Specific)				
	a)Codeine Phosphate U.S.P.	kg		1,420	
	b)Codeine Phosphate B.P.	kg		300	
	Grand Total (2+3)	**20,161**	**24,374**	**21**	

B. SALES

Sl. No.	Particulars	QTY. (kg)	SALES (Rs/crore)
(1)	**(2)**	**(3)**	**(4)**
1	Export of opium	5,01,655	* 160.73
2	Domestic Sale of Drugs:		
	a) Codeine Sulphate	175	0.65
	b) Morphine salts	122	0.49
	c) Codeine Phosphate	23,787	78.50
	d) Dionine	266	1.14
	e) Pure Thebaine	785	3.34
	f) Noscapine B.P.	2,615	6.83
	g) Papavarine	398	0.08
	h) Pholcodine	12	0.07
	i) Oxyecodone	–	–
	j) IMO Powder	3,846	1.48
	k) IMO Cake	2014	0.65
	Total	**34,020**	**93.23**
3	Sale of Imported Drugs (Vendor Specific)		
	a) Codeine Phosphate U.S.P.	1,420	3.51
	b) Codeine Phosphate B.P.	300	0.92
	Total		**4.43**
	Grand Total (1+2+3)	**5,37,395**	**258.39**

Provisional figures

C Country Wise Export of Opium (excluding IMO Powder & Cake) (Qty. in MTS)

	Unit	USA	France	Germany	Japan	Iran	Total
Ghazipur	34	0	0	0	95	0	129
Neemuch	361	0	1	0	0	10	372
Total	**395**	**0**	**1**	**0**	**95**	**10**	**501**

D Opium Charged for Production of Drugs: (Qty. in MTS at 90° C) 134.005

E Revenue Receipts (on Realisation Basis) (Rs. in crore)

Unit	Opium Factories	Alkaloid Works	Total
Ghazipur	56.42	29.23	85.65
Neemuch	128.41	66.66	195.07
Total	**184.83**	**95.89**	**280.72**

Table 3.31

Sl. No.	Particulars	Unit	Actual Production up to November 2005-06	Actual Production up to November 2006-07	Percentage Increase over previous year
(1)	(2)	(3)	(4)	(5)	(6)
A.	**Production**				
1	**Drying of opium for Export at 90 C**	MT.	263	183	30
2	**Manufacture of Drugs :**				
	a) Codeine Sulphate	kg	203	296	46
	b) Morphine salts	kg	26	131	404
	c) Codeine phosphate	kg	5733	5943	4
	d) Dionine	kg	203	545	168
	e) Pure Thebaine	kg	226	26	- 88
	f) Noscapine BP	kg	1711	2132	25
	g) Pholcodine	kg	–	98	100
	h) Papaverine S.R.	kg	901	882	- 2
	i) IMO Powder	kg	1040	760	- 27
	j) IMO Cake	kg	967	1066	10
3	**Import (Vendor Specific)**				
	a) Codeine Phosphate U.S.P.	kg	20	1600	
	b) Codeine Phosphate B.P.	kg	300	–	
	c) Cod. Phos. Hemihydrate	kg	–	85	
	Total (2+3)	**11330**	**13564**	**20**	

B. SALES

Sl.No.	Particulars	2005-06		2006-07	
		Qty. (kg.)	(Rs./ crore)	Qty. (kg)	(Rs./ crore)
(1)	(2)	(3)	(4)	(5)	(6)
1	Export of opium on accrual basis	321284	* 104.10	281971	* 90.34
2	Domestic Sale of Drugs : (on actual basis)				
	a) Codeine Sulphate	120	0.44	140	0.34
	b) Morphine salts	35	0.14	167	0.72
	c) Codeine Phosphate	13214	43.60	10387	33.34
	d) Dionine	211	0.91	561	2.35
	e) Pure Thebaine	350	1.49	100	0.43
	f) Papavarine	297	0.06	200	0.04
	g) Noscapine BP	1677	3.97	2232	6.92
	h) Pholcodine	5	0.03	94	0.43
	i) IMO Powder	1437	0.53	3369	1.30
	j) IMO Cake	1081	0.34	1151	0.39
	Total	**18427**	**51.51**	**18487**	**46.26**
3	Import (Vendor Specific)				
	a) Codeine Phosphate U.S.P.	20	0.05	1600	4.34
	b) Codeine Phosphate B.P.	300	0.92	–	–
	c) Cod. Phos. Hemihydrate	–	–	85	0.21
	Grand Total (1+2+3)	**340031**	**156.58**	**302143**	**141.15**

** Provisional figures.*

C. Country Wise Export of Opium (Qty. in MTS) at 90 C

Unit	Usa	France	Japan	Iran	Total
2005-06					
Ghazipur	34	0	50	0	84
Neemuch	237	0	0	0	237
Total	**271**	**0**	**50**	**0**	**321**
2006-07					
Ghazipur	206	0	49	0	255
Neemuch	25	2	0	0	27
Total	**231**	**2**	**49**	**0**	**282**

D Revenue Receipts on Realisation Basis (Rs. in crore)

Unit	Opium Factories	Alkaloid Works	Total
2005-06			
Ghazipur	10.42	10.04	20.46
Neemuch	61.86	41.74	103.60
Total	**72.28**	**51.78**	**124.06**
2006-07			
Ghazipur	63.76	9.74	73.50
Neemuch	15.95	30.68	46.63
Total	**79.71**	**40.42**	**120.13**

Economic Intelligence Council (EIC) and the other related to economic intelligence (ECOINT). In the light of this mandate, the emphasis of Bureau's functioning is on the operational coordination between different enforcement and investigation agencies dealing with economic offences. The Bureau receives intelligence reports from all sources of ECOINT, collates, analyses and disseminates them among the users / consumers / decision makers. The Bureau keeps a watch on different aspects of economic offences and emergence of new types of such offences; coordinates the functioning of Regional Economic Intelligence Committees (REICs) and implements the COFEPOSA Act. It also organises training programmes in premier training institutions for officers of the Department of Revenue.

6.4 The Bureau also supervises and monitors the functioning of 21 Regional Economic Intelligence Councils (REICs) which are nodal agencies at the field level and have been constituted for coordinating work amongst various enforcement and investigative agencies dealing with economic offences at regional level.

Performance of the Bureau

6.5 Keeping in view the revised mandate of CEIB, the existing coordination arrangements both at the centre as well as the REICs have been strengthened to ensure closer cooperation among the constituent members. The REICs are being encouraged to convene their meetings and the meetings of Nodal Officers at regular intervals and also ensure participation by the designated officers from the Department/ agencies represented. As a result there has been improvement in the frequency of the meetings of REICs as well as in the sharing of information and quality of information being shared.

MajorActivities Undertaken by the Bureau During FY 2006-07 (upto Dec. 06)

- Three new REICs were set up at Dehradun, Ranchi and Raipur bringing the total member of REICs in the country to 21.
- Four zonal conferences of the Conveners of REICs were held at Mumbai (Western Zone), Delhi (Central Zone), Bangalore (Southern Zone) and Kolkata (Eastern Zone) which were presided by SS&DG, CEIB. The zonal conferences were attended by DGIT(Inv.) / Chief Commissioner(C&CE) concerned in their capacity of Convener of their respective REICs. Various problems and current issues common to the REICs were discussed in the conferences.
- The Bureau has put a mechanism of information exchange between various agencies. A group of Nodal Officers later named as Group on Economic Intelligence (GEI) has been formed having nodal officers from various agencies who collect information relating to economic intelligence from their organization and share it with the Bureau. The Bureau examines the intelligence inputs so received and then shares them with the concerned agencies. The intelligence shared are thereafter discussed in the Bureau during the regular meetings of the GEI. The Group on Economic Intelligence meets regularly in the CEIB and discusses relevant issues arising out of the information exchange mechanism. Issues relating to policies and intelligence inputs are also discussed during these meetings. Issues requiring changes at policy level are referred to the Department of Revenue for decision.
- There has been a regular flow of information relating to FICN, hawala, smuggling, drug trafficking, tax evasion and linkages to militancy and criminal syndicates. The said intelligence inputs are being regularly shared with the concerned agencies.
- The Bureau is also in the process of development a data-base on all economic offences and offenders. Necessary infrastructure in this regard is being put in place for making the data-base operational. The data base would initially have inputs from Customs, Central Excise, Service Tax & Income Tax.
- The seizure/offence reports pertaining to the Customs, Central Excise & Service Tax cases being received by the Bureau from various field formations in the forms of DRI-II/AE-II, involving duty evasion of Rs. 5 lakhs & above are examined thoroughly. The cases of duty evasion requiring multi agency action are forwarded to the jurisdictional REIC Conveners for taking up in the REIC meetings and initiating action by other agencies wherever required.
- The following chart indicates the number of such reports received and examined and also the number of cases referred to the REICs during the year 2006-07 (upto Nov., 2006). Given in Table 3.32.
- The seizure/offence reports mentioned above were also examined to study the various modus operandi adopted by the tax evaders. In the deserving cases field formations of Customs and Central Excise were communicated through the Chief Commissioners to examine the matters in view of the new modus operandi adopted by tax evaders to evade Customs & Central Excise duty.
- During the Financial 2006-07, the intelligence inputs received from field formations of Income Tax Department were examined and analysed in detail. The inputs were also processed to study the modus operandi adopted by tax-evaders, to study the prevailing business practices and associated tax-evasion methods in such business activities, to study the regional patterns of tax-evasion in the different parts of India. The cases of Income tax evasion requiring action from Customs, Central Excise, Service Tax, DRI, ED, SEBI and other agencies were sent to jurisdictional REICs for initiating action under their respective departments. During the Financial Year 2006-07, the information in 109 cases were forwarded to jurisdictional REICs for follow-up action by them.
- In a few selected cases, the information regarding a

Table 3.32		
	No. of reports received and reviewed	No. of cases referred to REICs
AE-IIs (C.Ex.)	353	119
AE-IIs (Service Tax)	255	150
DRI-IIs	220	64
Total	**828**	**333**

particular identified and analysed business activity, its prevailing practices, its method of tax-evasion and its potential of tax-evasion were also communicated to the DGITs of different regions to take appropriate action in these specified areas in their respective regions.

- The information regarding tax evasion was also gathered in a number of cases from our cultivated sources and forwarded to jurisdictional DGITs for further processing and initiating action against these person.
- The policy changes were also suggested in the Wealth Tax Act to augment tax collections. The suggestions included broadening the Wealth tax base, expanding the concept of assets and adopting a progressive method of taxation etc.
- The Bureau is also sharing details of cases relating to smuggling of wildlife (flora and fauna) with the Ministry of Environment & Forests. Matters relating to circulation and seizures of FICN are being shared with CBI.

Administration of COFEPOSA Act

6.7 One of the functions of CEIB is the overall administration of the COFEPOSA Act, 1974 (Conservation of Foreign Exchange and Prevention of Smuggling Activities Act) including monitoring of preventive detentions under COFEPOSA Acts ordered by the State Governments. Despite economic liberalisation, acts of violations of economic laws continue to take place. The COFEPOSA Act, 1974 is aimed to act as a deterrent against menace of smuggling and foreign exchange racketeering. However, the preventive detention under COFEPOSA Act is being resorted to only in the most deserving cases. As a result the number of cases have come down drastically over the years. During the period 1st April, 2006 to 8th December, 2006, 06 detention orders were issued by the specially empowered officer of the Central Government and 13 persons were actually detained during this period, including those against whom orders were issued by the specially empowered officers of the Central Government during this year and previous years.

Bulletins / Publications

6.8 The Bureau brings out a **"Newsletter & Intelligence Digest"** compiling trends in economic offences with details included which is a useful reference material for different institutions and field formations dealing with economic subjects.

Training

6.9 To enhance the investigative skills of officers of Department of Revenue in intelligence gathering techniques etc. the Bureau has organized training courses at various specialized training institutions. During the year 2006, the following programmes were organized:

- 'Regulations & Frauds in the Insurance Sector' at the National Insurance Academy, Pune;
- 'Cyber Crimes' at Sardar Vallabhai Patel Police Academy, Hyderabad;
- 'Investigation of Economic Crime in Financial & Capital Market' at Indian Institute of Capital Markets, Mumbai;
- 'Banking operations & Fiscal Law Enforcement' at State Bank Staff College, Hyderabad.
- "Intelligence gathering & Intelligence tradecraft" at Directorate of Military Intelligence and Training, Pune.
- "Intelligence gathering & Intelligence tradecraft" at Cabinet Sectt. Training Institute, Gurgaon.
- "Intelligence gathering & Intelligence tradecraft" at IB Training School, 35, SP Marg, New Delhi.

7. Directorate of Enforcement

The Directorate has been reorganized during the year 2006-07 and presently it has the following 10 Zonal offices and 11 sub Zonal Offices:-

Zones	Mumbai, Delhi, Chennai, Kolkata, Chandigarh, Lucknow, Cochin, Ahmedabad, Bangalore & Hyderabad
Sub Zones	Jaipur, Jalandhar, Srinagar, Varanasi, Guwahati, Calicut, Indore, Nagpur, Patna, Bhubaneshwar & Madurai.

Main Functions

- To collect, develop and disseminate intelligence relating to violations of FEMA, 1999, the intelligence inputs are received from various sources such as Central and State Intelligence agencies, complaints etc.
- To investigate suspected violations of the provisions of the FEMA, 1999 relating to activities such as "hawala" foreign exchange racketeering, non-realization of export proceeds, non-repatriation of foreign exchange and other forms of violations under FEMA, 1999.

- To adjudicate cases of violations of the erstwhile FERA, 1973 and FEMA, 1999.
- To realize penalties imposed on conclusion of adjudication proceedings.
- To handle adjudication, appeals and prosecution cases under the erstwhile FERA, 1973
- To process and recommend cases for preventive detention under the Conservation of Foreign Exchange and Prevention of Smuggling Activities Act (COFEPOSA)
- To undertake survey, search, seizure, arrest, prosecution action etc. against offender of PMLA offence.
- To provide and seek mutual legal assistance to/from contracting states in respect of attachment/confiscation of proceeds of crime as well as in respect of transfer of accused persons under PMLA.

Highlights and Achievements

FERA, 1973 / FEMA, 1999

This Directorate has adjudicated 105 cases under erstwhile FERA, 1973 and 340 cases under FEMA during the period from April, 2006 to December, 2006. During the said period, the Directorate has realized penalties to the tune of Rs.500.50 Lakhs under FERA and Rs. 97.32 Lakhs under FEMA. 143 cases have also been disposed of in the prosecutions launched earlier under Section 56 & 57 of FERA, 1973 during the above period.

Prevention of Money Laundering Act (PMLA), 2002

The Directorate has prepared PMLA Manual for effective implementation of PMLA and the rules made there-under. The Directorate has gathered/received some inputs against suspected transactions/dealings against individuals and establishments etc. the Directorate has also initiated investigation against suspected money launders, and 7 cases have been registered upto December, 2006 under PMLA, 2002.

Table 3.33

A	**SEARCHES & SEIZURES**			**FEMA**	
1	Searches conducted			38	
2.	FE seized(Rs. in lakhs)			04.78	
3.	IC seized(Rs. in lakhs)			355.86	
B	**INVESTIGATION**				
1.	Initiated			574	
2.	Disposed			868	
3.	Pending			5045	
4.	SCNs issued			483	
5.	Amt. involved in SCNs issued(Rs. in Lakhs)			16390.13	
C	**ADJUDICATION**	**FERA**	**FEMA**	**TOTAL**	
1.	Cases adjudicated	105	+	340	445
2.	Cases pending adjudication	3776	+	1089	4865
3.	Confiscation of foreign exchange(Rs. in lakhs)	Nil	+	09.25	09.25
4.	Confiscation of Indian currency(Rs. in lakhs)	00.15	+	31.90	32.05
D	**PENALTIES**				
1.	Imposed (Rs. in lakhs)	15758.40	+	1112.76	16871.16
2.	Realised(Rs. in lakhs)	500.50	+	97.32	597.82
3.	**Pending**	542373.46	+	53172.90	595546.36
E	**COFEPOSA**				
1.	Orders issued	Nil	+	Nil	Nil
2.	Detained	04	+	Nil	04
F	**PROSECUTIONS**	**FERA**			
I.		**Disposal**	**143**		
	i)	Conviction	32		
	ii)	Acquittal	03		
	iii)	Discharge	07		
	iv)	Withdrawn	40		
	v)	Otherwise	61		
II.		**Pending**	**4525**		

Performance and Achievements during 2006-07

The statistical information relating to various performance and achievements during FY 2006-07 (upto Dec.06) is given in Table 3.33.

8. Set Up for Forfeiture of Illegally Acquired Property

The Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act, 1976 (SAFEM(FOP)A), provides for forfeiture of illegally acquired property of the persons convicted under Sea Customs Act, 1878, Customs Act, 1962, Foreign Exchange Regulation Act, 1947 and Foreign Exchange Regulation Act, 1973 and the persons detained under Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974. The Narcotic Drugs and Psychotropic Substances Act, 1985 (NDPSA) provides for tracing, freezing, seizure and forfeiture of illegally acquired property of the persons convicted under that Act or any corresponding law of any foreign country, and those who are detained under Prevention of Illicit Traffic in Narcotic Drugs and Psychotropic Substances Act, 1988 and Jammu & Kashmir Prevention of Illicit Traffic in Narcotic Drugs and Psychotropic Substances, Act, 1988.

SAFEM(FOP) Act and NDPS Act provide for appointment of Competent Authorities for carrying out forfeiture of illegally acquired property. The offices of Competent Authorities are located at Kolkata, Chennai, Delhi, Lucknow and Mumbai and one unit is at Ahmedabad. The office of CA at Lucknow is being wound up and shall be final by March, 2007. SAFEM(FOP)A and NDPSA envisage establishment of an appellate forum, namely the Appellate Tribunal for Forfeited Property (ATFP) to hear appeals against the orders of the Competent Authorities. The ATFP is located at New Delhi. It consists of a Chairman who is, or has been, or is, qualified to be a Judge of the Supreme Court or High Court and two Members who are appointed from among the officers of the Central Government who are not below the level of Joint Secretary to the Government of India.

During the year 2006-2007 (upto November, 2006), the Competent Authorities forfeited property worth Rs.769.03 in 91 cases. The details regarding the number of reports received by the Competent Authorities from enforcement agencies, the number of show cause notices issued and the value of the property involved therein, the number of orders of forfeiture passed and the value of the property involved therein, and the value of sale proceeds of the property disposed of, year-wise, from 2000-2001 to 2006-2007 (up to November, 2006), are given in the Table 3.34.

In ATFP, during the period from 1st April, 2006 to 31st December, 2006, a total number of 3 Appeals and 38 Miscellaneous Petitions under SAFEM(FOP)A, and 16 Appeals and 21 Miscellaneous Petitions under NDPSA, were filed. During the same period, 43 Appeals and 40 Miscellaneous Petitions were disposed of.

9. State Taxes Section

9.1 The State Taxes Section of the Department of Revenue handles legislative work relating to Central Sales Tax levied on inter-State sale of goods. In addition, the State Taxes Section also deals with matters relating to the State Value Added Tax (VAT), Indian Stamp Act, 1899, Service Tax Legislation for levy of tax on services and matters related to Additional Duties of Excise (in lieu of sales tax).

Table 3.32: Details regarding Forfeiture of Illegally Acquired Property under NDPSA and SAFEM (FOP) A by Competent Authorities

F.Y.	Number of Reports received from Enforcement Agencies	Number of Noticces for Forfeiture Issued and value of the Property Involved		Number of forfeiture Orders Issued and Value of the Property Involved		Value of sale Proceeds of Property Disposed off (in Rs. Lakh)
		Number	Value (in Rs. Lakhs)	Number	Value (in Rs. Lakhs)	
2000-2001	491	159	2755	103	1662	201
2001-2002	228	89	7223.12	50	3202.39	107
2002-2003	995	72	1269.22	53	2498.60	18
2003-2004	1180	97	1547.75	25	977.01	51.6
2004-2005	1357	162	3251.64	25	650.93	73.67
2005-2006	607	214	10074.59	91	744.60	153.27
2006-2007*	494	206	10122.47	91	769.03	2.41

* upto November, 2006

State Value Added Tax (VAT)

9.2 Introduction of State VAT is the most significant tax reform measure at State level. The State VAT has replaced the earlier Sales Tax systems of the States. Under Entry 54 of List II (State List) of the Seventh Schedule of the Constitution of India, 'tax on sale or purchase of goods within a State' is a State subject. The Government of India has constituted an Empowered Committee of State Finance Ministers (EC) to deliberate upon and decide all issues concerning Sales Tax Reforms/ State VAT. The decision to implement State VAT was taken in the meeting of the EC held on 18.06.2004, where a broad consensus was arrived at amongst the States to introduce VAT w.e.f. 01.04.2005. The State VAT has already been introduced by 31 States/ UTs as on 01.01.2007. The UT of Puducherry has decided to implement VAT w.e.f. 01.04.2007. Uttar Pradesh has not yet taken a decision to implement VAT. The remaining 2 UTs (Andaman & Nikobar Islands and Lakshdweep) do not levy sales tax/ VAT.

9.3 Since Sales Tax/ VAT is a State subject, the Central Government has been playing the role of a facilitator for successful implementation of VAT. Some of the steps taken by the Central Government in this regard are as follows:

a) A package for payment of compensation to States for any revenue loss on account of introduction of VAT has been implemented.

b) A Model VAT Bill was got prepared and circulated amongst the States to help them in preparation of their VAT Bills. Similarly, an Audit Manual for VAT was also got prepared and circulated.

c) Technical and financial support is being provided to North Eastern/ Special- category States to enable them to take up VAT computerisation.

d) Financial support has been provided to the Empowered Committee as well as the States for undertaking VAT related publicity and awareness campaigns.

e) 50 per cent funding is being provided to the EC for implementation of the TINXSYS Project for tracking of inter-State transactions.

9.4 The experience with implementation of VAT has been very encouraging so far. The new System has been received well by all the stake-holders. The transition to the new system has been quite smooth. The trend of revenue collection in the VAT implementing States has also been very encouraging. Based of provisional data furnished by the States, it is seen that during 2005-06, the tax revenue of the 25 VAT implementing States/ UTs registered an increase of around 13.8 per cent over the tax revenue of 2004-05, which is higher than the Compound Annual Growth Rate (CAGR) of sales tax revenues of these States for last 5 years upto 2004-05. During 2006-07, there is significant further improvement in the revenue performance of VAT States. In fact, the 30 VAT State/ UTs have collectively registered a growth rate of about 24 per cent during first 9 months of 2006-07 (April-December) as compared to corresponding period of last year. This indicates that the VAT system has started yielding the desired results.

Central Sales Tax (CST)

9.5 Entry 92A of List I (Union List) empowers the Central Government to impose tax on inter-State sale of goods. Further, Article 269 (3) empowers the Parliament to formulate principles for determining when a sale or purchase of goods takes place in the course of inter-State trade of commerce. Similarly, Article 286 (2) of Constitution empowers the Parliament to formulate principles for determining when the sale or purchase of goods takes place outside a State or in the course of imports into or exports from India. Besides the above, Article 286 (3) of Constitution authorizes the Parliament to place restrictions on the levy of tax by the States on sale or purchase of goods, declared by the Parliament by law to be goods of special importance in the inter-State trade or commerce. The Central Sales Tax Act, 1956 imposes the tax on inter-State sale of goods and formulates the principles and imposes restrictions as per the above-mentioned powers conferred by the Constitution. Though the Central Sales Tax Act 1956 is a Central Act, the State Governments collect and appropriate the proceeds of Central Sales Tax as per Article 269 of the Constitution of India. The Government of India has also framed the Central Sales Tax (Registration and Turnover) Rules, 1957 in exercise of powers conferred by section 13(1) of the CST Act, 1956.

9.6 During 2006-07, the CST Act, 1956 was amended through the Finance Act, 2006, to include 'LPG for domestic use' in the list of declared goods under section 14 of the Act, so that the price of Liquefied Petroleum Gas (LPG) can be kept at a moderate level.

9.7 The CST is basically inconsistent with the concept of VAT and needs to be phased out. A critical issue involved in phasing out of CST is that of compensating the States for revenue losses on account of such phase out. During 2005-06, the total revenue collection from CST was around Rs. 18,000 crore. If CST is phased out, this revenue will be permanently lost by the States and hence, they are insisting on a mechanism to compensate them for such revenue loss. In this connection, a broad consensus was arrived at in the meeting of the Union Finance Minister with the State Finance Ministers held on 03.01.2007. Accordingly, it is proposed to reduce CST from 4 per cent to 3 per cent w.e.f 01.04.2007 and thereafter, by 1 per cent from 1st April every year. The broad parameters for the compensation package have been agreed upon. Further necessary steps are being taken (31.01.2007).

Service Tax

9.8 The Service Sector has grown rapidly all over the world and India has been no exception to this global trend. This Sector now accounts for nearly 54 per cent of the country's GDP. Taxation of services in India was started through the Finance Act, 2004, through which tax was levied @5 per cent on 3 specific services. As the power to levy tax on services is not specifically mentioned in either the Union List or the State

List in the Seventh Schedule of the Constitution of India, the Government of India started taxation of services by virtue of Entry 97 of the Union List, i.e. 'any other matter not enumerated in List II or List III including any tax not mentioned in either of those List'. The proceeds of Service Tax are distributed between Centre and States as per Article 270 of the Constitution of India, on the recommendations of the Finance Commission. The scope of taxation has been gradually expanded over the years. Presently, the tax is being levied on 99 services and the rate of tax has gone up to 12 per cent (plus education cess).

9.9 In view of the fact that the Service Tax is going to be a major source of tax revenues in future, it was considered appropriate to have a specific provision in the Constitution of India for levy, collection and distribution of Service Tax. Accordingly, the Constitution (Eighty Eighth) Amendment Act, 2003 relating to Service Tax was enacted. The new Constitutional provisions require that a Central Legislation is enacted to lay down the principles for collection and appropriation of the Service Tax between the Govt. of India and the States. Accordingly, a Draft Service Tax Bill was prepared, the salient features of which were circulated to States and UTs in February 2004 seeking their comments. In November 2004, the issue was discussed in the Conference of the State Finance Ministers convened by the Union Finance Minister. In the Conference, there was wide divergence of opinions amongst the States on the issues of collection and appropriation of service tax. The matter has been further discussed in the Meetings of the Union Finance Minister with the State Finance Ministers on 16.12.2005, 17.02.2006, 22.03.2006 and 03.01.2007 along with the discussion on the issue of phasing out of CST and compensating the States for revenue loss on account of such phasing out.

9.10 After initial discussion with the EC, 77 services of intra-State nature were offered to the States as part of the CST compensation package, for collection and appropriation of Service Tax proceeds by the States. Out of these 77 services, 33 services are presently being taxed by the Centre and 44 services are not being taxed at present. However, the EC is of the view that the States require at least a year's time to set up the necessary administrative machinery for Service Tax, since this is a new area of taxation for them. Hence, the Centre may consider continuing to collect the tax on these 77 services for one more year (i.e. during 2007-08) and transfer 100 per cent of tax proceeds to the States – 30.5 per cent as per the Finance Commission Devolution Formula and 69.5 per cent to compensation the revenue loss due to phasing out of CST. This is being considered. Matter is under process for obtaining necessary approvals (31.01.2007).

Additional Excise Duty (AED) in lieu of Sales Tax

9.10 The Additional Excise Duty (AED) is levied on sugar, tobacco and textiles, in lieu of Sales Tax, as part of tax rental arrangement with the States. Under the tax rental arrangement, the States presently receive 1 per cent share of the Divisible Pool in lieu of foregoing their right to levy Sales Tax/ VAT on AED items. This is based on the recommendations of the Twelfth Finance Commission and this devolution takes place under the Constitution (Distribution of Revenue) No. 5 Order, 2005. The tax rental arrangement in the form of AED in lieu of Sales Tax does not take away the Constitutional powers of the States to levy Sales Tax/ VAT on AED items. The only consequence of levy of Sales Tax/ VAT on AED items by a State is that such State shall lose its share out of the 1 per cent devolution from the Divisible Pool on account of AED.

9.11 As part of the ongoing VAT reforms, the Empowered Committee of State Finance Ministers (EC) has been of the view that AED should be abolished and the States should be allowed to levy VAT on AED items as well so that the AED items can be fully and effectively integrated in the VAT system. The EC has decided to start with levy of VAT on Tabacco during 2007-08. The decision in respect of other AED items is to be taken later. Accordingly, necessary steps are being taken to facilitate levy of VAT on Tobacco by States during the year 2007-08 (31.01.2007).

Indian Stamp Act, 1899

9.12 Under the Constitution of India, Stamp Duties (but not including rates of stamp duty) falls under Entry 44 of the Concurrent List. The Central Government has powers to fix the rates of stamp duty in respect of 10 instruments specified in Entry 91 of the Union List, whereas States have the powers in respect of the remaining instruments by virtue of Entry 63 of the State List. The revenue from stamp duty is collected and appropriated by the State in which it is leviable. The Indian Stamp Act, 1899 lays down the Central law relating to Stamp Duty.

9.13 During 2006-07, the following amendments have been carried out in the Indian Stamp Act, 1899, through the Finance Act, 2006, in order to remove certain difficulties in implementation of the Act:

a) Section 9 of the Act was amended with a view to delegate the powers of composition or consolidation of stamp duties to the State Governments even in respect of instruments referred to in the Union List of the Seventh Schedule to the Constitution, with a view to simplify the procedural requirements.

b) Section 35 of the Act was amended with a view to provide for equal treatment for all instruments in the matter of validation of such instruments on payment of due stamp duty along with penalty.

Goods and Services Tax (GST)

9.14 Goods and Services Tax (GST) means taxation of goods and services in an integrated manner, and not separately as is being done now. The line of demarcation between goods and services is getting blurred, which has made separate taxation of goods and services untenable. Integrated Goods & Service Tax (GST), based on VAT principles, has evolved as the most modern and efficient form of indirect taxation and the same has been adopted by a large number of countries (including Federal countries) around the world. Even in European countries, coverage of

VAT includes both goods and services. In India also, the process of indirect taxation has been evolving on the lines of VAT and introduction of an integrated GST would be the natural culmination of the tax reform efforts of last about two decades.

The Central Government has set 01.04.2010 as the target date for introduction of GST. Implementation of GST requires, as a pre-requisite, that we all the necessary building blocks are first put in place. Significant progress has been made on this front, as can be seen from the following:

- VAT has been implemented by all the States except Uttar Pradesh. This is very critical for GST. Unless VAT is implemented by all States, GST is not possible. The Central Government has been closely working with the Empowered Committee of State Finance Ministers (EC) in this regard.
- Phasing out of CST is another critical building block for GST. A consensus has now been reached with the States on the roadmap for phasing out the CST by 31.03.2010. As the first step in this direction, it is proposed to reduce CST from 4 per cent to 3 per cent w.e.f. 01.04.2007.
- The Centre and States have been separately working on reforming their respective tax systems. The Central Government has been adopting policies that will eventually facilitate integration of CENVAT, Service Tax etc. in GST. The States have been similarly working on bringing about uniformity in VAT procedures, adoption of HSN System of commodity classification etc.

With the above significant developments, the stage has now been set for serious deliberations between the Centre and States on the design of GST. This will cover aspects like tax base, tax rate structure, system of tax administration (manner of collection and appropriation of tax), nature of Constitutional, legal and institutional framework etc. The process of deliberations is expected to commence shortly.

10. Financial Intelligence Unit – India (FIU-IND)

Background

The Government of India set up Financial Intelligence Unit – India (FIU-IND) vide order dated 18th November 2004 as the central national agency responsible for receiving, processing, analyzing and disseminating information relating to suspect financial transactions to enforcement/intelligence agencies. FIU-IND is a multi-disciplinary body with a sanctioned strength of 43 personnel.

Prevention of Money Laundering Act, 2002

The Prevention of Money Laundering Act, 2002 (PMLA) forms the core of the legal framework put in place by India to combat money laundering. PMLA and the Rules notified thereunder came into force with effect from July 1, 2005. Director, FIU-IND and Director (Enforcement) have been conferred with exclusive and concurrent powers under relevant sections to implement the provisions of PMLA. PMLA and the Rules notified thereunder impose obligations on banking companies, financial institutions and intermediaries of securities market to verify identity of clients, maintain records and furnish information relating to certain cash and suspicious transactions to FIU-IND.

Physical and Technical Infrastructure

The office of FIU-IND has already become operational from the hired space on the 6th Floor of Hotel Samrat. The necessary physical infrastructure such as officers chambers, staff cabins, Conference Room, Library, Visitors Room, fire-fighting system, air-conditioning and access control system as per the operational needs are already in place and technical infrastructure consisting of computers, LAN system etc. is also operational.

Compliance under PMLA

The Regulatory agencies namely, Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI) and Insurance Regulatory Development Authority (IRDA) has, in pursuance of the provisions under Prevention of Money Laundering Act (PMLA) notified the reporting formats and issued directives to the designated reporting entities in the sectors of banking companies, financial institutions and intermediaries. Reporting entities have started sending Cash Transactions Reports (CTRs) and Suspicious Transactions Reports (STRs) to FIU-IND. Till 15.01.2007, FIU-IND has received more than 14 lakh CTRs and nearly 500 STRs. FIU-IND has developed in-house capabilities to capture the data received in the Cash Transaction Reports from reporting entities and create a database. Suspicious Transactions Reports are being analyzed in FIU-IND and on the basis of the analysis, information is passed on in appropriate cases to concerned intelligence/enforcement agencies for further investigations. FIU-IND has also started receiving regular feedback from these agencies in respect of the information sent.

Website of FIU-IND

FIU-IND has developed and hosted its website at www.fiuindia.gov.in. The website contains information on the Prevention of Money Laundering Act, 2002, obligation of reporting entities, scheduled offences, notifications and publications with appropriate links between related sections. Information about related acts, related sites, downloads, Frequently Asked Questions (FAQs) and definitions have been included to make it a comprehensive reference site on all matters related to money laundering. The website is periodically updated.

Project FINnet

FIU-IND has initiated Project FINnet – Financial Intelligence Network, with the objective to "adopt industry best practices and appropriate technology to collect, analyze and disseminate valuable financial information for combating money laundering and related crimes". The project would consist of two phases i.e., Phase I-Preparation of the

Consultancy Report and Phase II-Implementation of the Consultancy Report. FIU-IND has already received bids from IT companies who have been selected on the basis of their Expression of Interest 'EoI', profile. The technical committee of officers constituted with the approval of the Competent Authority is in the process of examining the bids to hire Consultant for the Project FINnet.

Education of Reporting Entities

Series of meetings with major banks were also held in the office of FIU-IND to increase compliance of PMLA by the banks. In order to increase compliance of PMLA, officers of FIU-IND have been providing facility support at various seminars/workshops organized by regulators and trade association of reporting entities.

11. Integrated Finance Division

The Integrated Finance Division consists of three Units dealing with finance and one Internal Work Study Unit (IWSU).

I. Integrated Finance Units

1. All expenditure, financial and budget proposals from Department of Revenue including its attached/ Subordinate offices i.e. Central Bureau of Narcotics, Chief Controller of Factories, Central Economic Intelligence Bureau, Financial Intelligence Unit (FIU-IND), Enforcement Directorate, Customs, Excise & Service Tax Appellate Tribunal, Settlement Commission, Authority for Advance Ruling, Appellate Tribunal for Forfeited Property etc., as also the field offices of Central Board of Excise and Customs & Central Board of Direct Taxes were processed. Various expenditure and financial proposals in Finance Division were scrutinized and disposed of as per details below:-

   (a) Proposals for creation of posts, construction/ purchase/hiring of offices, as well as residential accommodation for the field formations of Central Board of Excise & Customs and Central Board of Direct Taxes, Deptt. of Revenue and its attached offices.

   (b) Proposals for deputation abroad of officers of the Department and its field offices.

   (c) Restructuring of the Department of Revenue and its field offices which include Enforcement Directorate, Central Bureau of Narcotics, redeployment of personnel in field formations of CBEC.

   (d) Proposals relating to Comprehensive Computerization of the Department of Revenue, its field formation including Customs and Central Excise formations and Income Tax field formations.

   (e) Proposals relating to computerization of States for VAT purposes and compensation to States for loss of revenue due to introduction of VAT.

   (f) Proposals for providing infrastructure to the newly set up FIU-IND under PMLA which include computerization of the office.

   (g) Proposals relating to grant-in-aid for National Institute of Public Finance & Policy and Central Revenue Sports Board.

   (h) Proposals for Committee of Non-Plan Expenditure (CNE)/CCEA.

   (i) Proposals pertaining to Customs & Central Excise Welfare Fund.

2. The expenditure budget of Department of Revenue-Demand No.41, Direct Taxes - Demand No.42 and Indirect Taxes- Demand No.43 was prepared and consolidated. The summarised details of all the grants is given in Table 3.34.

3. Integrated Finance Division has taken the following steps/initiatives in 2006-07:-

   (i) Implementation of cash Management Plan as per Monthly expenditure Plan (MEP) as envisaged by Budget Division.

   (ii) Review of Monthly Expenditure vis-à-vis Monthly/ Quarterly Expenditure vis-a-vise budgetary allocations and MEP with report to Revenue Secretary in this regard.

   (iii) Enforcement of instructions on economy in expenditure by periodic review of expenditure and advisories to spending authorities to keep the expenditure in control through utmost

(Rs. in crore)

Table 3.34

	2006-07 B.E.	2006-07 R.E.
(i) Demand No.41- Department of Revenue	3341.15	4449.11
(ii) Demand No.42 Direct Taxes	1334.00	1381.35
(iii) Demand No.43- Indirect Taxes	1714.82	1632.70

economy by each spending authority in line with the economy instructions issued by the Department of Expenditure.

(iv) Preparation of Performance Budget & Outcome Budget and monitoring of output of various schemes with reference to the targets and budgetary allocation.

(v) Review of Delegation of Powers to Heads of Departments of Department of Revenue including field units of Central Board of Excise & Customs and Central Board of Direct Taxes and issue of revised delegation of financial powers. Review of Delegation of Financial Powers has also been issued to Committee of Management and Chief Controller of Factories who supervise the functioning of Govt. Opium & Alkaloid Works (GOAWs).

4. In addition, the allocation and monitoring of the budget relating to advances, viz. House Building Advance, Vehicle Advance, Computer Advance etc. was also done.

5. The Integrated Finance Division has been watching the formulation of schemes of important expenditure proposals from their initial stage and also watching the settlement of audit objections, inspection reports, draft audit paras and reports of PAC/Standing Committee.

II. Internal Work Study Unit

Being the nodal agency for dissemination of Government guidelines for bringing about improvement and efficiency, cleanliness and for effecting cost economy in the administration, the Internal Work Study Unit (IWSU) of the Department of Revenue, during the year 2006-2007, continued its efforts to improve the quality of administration in the organisations under the Department of Revenue. The Unit continued to liaise with the Department of AR&PG, SIU, D/O Expenditure and the National Archives of India on the following:

(i) Compilation and consolidation of orders/instructions;

(ii) Review of rules & regulations and Manuals;

(iii) Review of periodical reports and returns;

(iv) Records management;

(v) Monitoring the progress of disposal of VIP and other pending cases;

(vi) Annual Inspection of the sections in the Department of Revenue.

In addition to the above, the proposals for creation/ continuation of posts on cost recovery basis pertaining to field formations of CBEC were also scrutinized in the Unit.

The IWSU. has initiated special steps to expand the coverage of sections/branches of the Deptt. for the purpose of O&M inspections.

The progress of disposal of pending VIP references in the Department has been monitored at the level of Secretary (Revenue) and Additional Secretary (Revenue) respectively with the officers concerned in the Department. The pendency position of VIP references is compiled and circulated to MOS (Revenue) and senior officers of the Department every fortnight. This has reduced the pendency of VIP cases considerably.

12. Implementation of Official Language Policy

The Department of Revenue has a full-fledged Official Language Division entrusted with the implementation of Official Language Act, 1963 and Rules made thereunder. The division is headed by a Director (O.L.) and operates through four Sections, each headed by an Assistant Director and supervised by two Deputy Directors. The Division deals with matters relating to implementation of Official Language Policy of the Union and takes follow up action on the orders and instructions issued by the Department of Official Language, from time to time. Entire translation work of the Department from English to Hindi and vice-versa is ensured by the O.L Division. The Department of Revenue is notified under Rule 10 (4) of the Official Language Rules, 1976. Twelve Sections have been specified for doing official work in Hindi.

Performance of the O.L. Division during the year 2006-2007

a) All the documents as per requirement under Section 3 (3) of the Official Language Act, 1963 were invariably issued bilingually;

b) All gazette notifications, assurances and replies to Parliament questions were furnished bilingually;

c) Notes and monthly summaries for the Cabinet were translated and made available bilingually; and

d) A number of Double Tax Avoidance Agreements entered into with various countries were translated into Hindi.

Hindi Salahkar Samiti and OLIC meetings

The meetings of the Official Language Implementation Committee were held at regular intervals. In the meetings members discussed the steps required to be taken for effective implementation of the Official Language Policy of the Union. A representative of the Department also attended the Official Language Implementation Committee meetings of the attached and subordinate offices situated in Delhi.

First meeting of the reconstituted Joint Hindi Advisory committee of the Department of Revenue and Department of Expenditure was held in March, 2006.

Official Language Seminar

Official Language seminar was organized on 17th March, 2006 by the Department courtesy Income Tax Directorate. Lectures were delivered on Official Language Policy and computer application in Hindi.

Inspection related to Official Language

To accelerate the use of Hindi in the Department, inspections were carried out in the subordinate offices and various sections of the headquarter by the officers of Hindi Division during the year under report and they were encouraged to improve the use of Hindi in their official work. Offices of the department situated at Hyderabad, Jaipur, Jhansi, Goa, Darjiling, Siliguri, Thiruvananthapuram, Vishakapatnam, Portblair, Gurgaon, Kottayam, Faridabad, Kanyakumari and Leh were inspected by third Sub- Committee of Parliament Committee on Official Language during the year and many valuable suggestions were given for maximum use of Official Language Hindi in their day-to-day work.

Hindi Day/Hindi Pakhwara

On the occasion of Hindi Day, appeals were issued by the Home Minister, Finance Minister, Cabinet Secretary and Additional Secretary (Revenue) exhorting all officers/ employees to do their maximum day-to-day work in Hindi.

Hindi Pakhwara was celebrated from 14th September, 2006 to 28th September, 2006. Various competitions like Hindi typing, Hindi noting & drafting, Essay writing, Hindi Slogan, Hindi Extempore Speech, quiz competitions, Hindi dictation for group 'D' employees, were organized. Those who secured first, second and third positions in these competitions will be given cash prizes.

Incentive Schemes

Under the incentive scheme of the Department of Official Language, cash awards are given to the officials for doing noting/drafting and other official work in Hindi. Besides this, in order to encourage uses of Hindi in official work short term award scheme for the period of three months is run in the Department of Revenue. The Rajbhasha Shield is given to the section which does the maximum and best work in Hindi during a specified period. The officers and employees doing maximum work in Hindi during a specified period are given Rs.1000/- and Rs. 700/- as a first and second prize. A similar scheme is also run for the attached/subordinate offices situated in Delhi. Rajbhasha Shield is given as first prize and two trophies are given for second and third place.

To encourage creative & original book writing in Hindi two incentive schemes have been run by the department for reviewing and writing original books in Hindi on subjects of Income Tax, Central Excise, Customs , Narcotics and Service tax. These schemes are open to all the citizens of India. There are attractive prizes in each category (i.e. original book writing in Hindi and reviewing) for winners.

Training

During the year 2006-07, 4 officers/employees who do not possess working knowledge of Hindi were nominated for training in Prabodh, Praveen and Pragya. Similarly, 12 L.D.Cs and 15 Stenographers were nominated for training in Hindi typing and Hindi stenography respectively during the year under report.

13. National Committee for Promotion of Social and Economic Welfare

In order to encourage investments in priority areas of socio-economic development, particularly keeping in view the upliftment of the rural poor and the urban dwellers, a tax incentive scheme was introduced by inserting Section 35AC in Income Tax Act, through the Finance (No.2) Act, 1991. Under the Scheme, contributions made by persons deriving income from business or profession to projects approved by National Committee are fully deductible in the computation of total income. The Committee functions under guidelines, which have been prescribed in the Income Tax Rules.

The National Committee headed by Justice Shri P.N. Bhagwati, former Chief Justice of India and comprising distinguished persons had been constituted by the Government of India which had its term upto 1.1.1998. Thereafter a new Committee under the Chairmanship of Justice Shri R.S. Pathak, former Chief Justice of India was constituted comprising distinguished persons for a period of three years from 2.1.1998. The term of this Committee was upto 1.1.2001. Thereafter, a new Committee was constituted under the Chairmanship of Justice Shri R.S. Pathak, former Chief Justice of India comprising distinguished persons for a period of 3 years till 21.05.2004. Thereafter, the Committee was reconstituted on 09.11.2004 under the Chairmanship of Mr. Justice Shri S.P. Bharucha, the former Chief Justice of

Table 3.35

Financial Year	Number of of Notified Projects
1992-1993	109
1993-1994	97
1994-1995	98
1995-1996	99
1996-1997	103
1997-1998	101
1998-1999	76
1999-2000	68
2000-2001	49
2001-2002	41
2002-2003	52
2003-2004	98
2004-2005	105
2005-2006	114
2006-2007 (upto 31.12.2006)	139

India. The Committee meets regularly and approves eligible projects for the purpose of section 35AC. The Central Government notifies the eligible projects on the recommendation of the Committee.

The year-wise break up of notified project is given in Table 3.35.

14. Appellate Tribunal for Forfeited Property

The Appellate Tribunal for Forfeited Property (ATFP) was constituted under the Smugglers and Foreign Exchange Manipulators (Forfeited of Property), Act, 1976 (SAFEMA). It started functioning from 03.01.1977. Subsequently, the Tribunal was also constituted as the Appellate Tribunal under the Narcotic Drugs and Psychotropic Substances Act, 1985 (NDPS) after its amendment in the year 1989.

The Tribunal comprises a Chairman (who is or has been a Judge of the High Court or Supreme Court) and two Members (who are generally of the level of Additional Secretary to the Government of India). It is situated at New Delhi without any Benches elsewhere. However, in order to provide justice at the door step of public, the Tribunal holds camp sittings at different places in the country under the provisions of the above acts.

The Tribunal hears appeals and allied matters filed against the forfeiture, or other orders passed by the officers designated as Competent Authorities for forfeiture of illegal properties of the persons convicted under the Customs Act, 1962 or NDPS Act, 1985 or detained under COFEPOSA, 1974 or PITNDPS Act, 1988 and also the properties held by such persons in the names of their relatives and associates and for seizure or freezing of illegally acquired property of the persons covered under NDPS Act.

The appeals and petitions are decided by the Benches consisting of at least two Members and constituted by the Chairman. During the period from 01.04.2006 to 31.12.2006, three appeals and thirty eight miscellaneous petitions under SAFEMA, and sixteen appeals and twenty one miscellaneous petitions under NDPS Act were filed. During this period, forty three appeals and forty miscellaneous petitions were disposed of. During the year 2006-07, this Tribunal was also assigned the appellative work pertaining to confiscation of properties under the Prevention of Money-Laundering Act, 2002. However, no appeal was received under the above Act.

15. Customs Excise & Service Tax Appellate Tribunal

The Customs Excise & Service Tax Appellate Tribunal was created to provide an independent forum to hear the appeals against the orders and decisions passed under the Customs Act 1962, Central Excise Act 1944 as amended from time to time and Gold (Control) Act 1968. The Gold (Control) Act has since been repealed. Presently Service Tax appeals have been included. The Tribunal is also having appellate jurisdiction in Antidumping matters and the special bench headed by the President, CEGAT, hears the appeals against the orders passed by the designated authority in the Ministry of Commerce. The Head Quarter as well as the Principal Bench of the Tribunal is situated at Delhi and other regional Benches are situated at Mumbai, Kolkata, Chennai and Bangalore. Additional Bench at Ahmedabad has started functioning from 11.10.2006. Each bench consists of a Judicial Member and a Technical Member. To expedite the disposal of small cases financial stake involving upto Rs. 10 lakhs, a single member bench is also constituted. The Tribunal is the appellate authority in the cases of classification and valuation. An appeal against the Tribunal's order lies before the Hon'ble Supreme Court.

As a result of an amendment by the Finance Act, 1995, the distinction between the special benches and other benches was done away with and now any bench of two or more members is competent to hear all the matters which were earlier being heard at Delhi expect anti-dumping matters.

Sanctioned strength of the Tribunal is as follows: President - one, Vice Presidents – 2 and Members – 18

A comparative statement showing the institutions and disposals by the tribunal is given in Table 3.36.

Table 3.36

Year	Institution	Disposal
2006-2007 (April 06 to Nov'06) (8 months)	10625	8474

The applications/appeals received under Right to Information Act, 2005 is being dealt with as per the rules laid therein.

16. Income Tax Settlement Commission

The Settlement Commission was constituted w.e.f. 01.04.1976 the Chapter XIX-A of the Income Tax Act, 1961 and Chapter V-A of Wealth Tax Act, 1957 for settlement of income tax and wealth tax cases.

There are four benches of the Settlement Commission as under:-

i) Principal Bench at New Delhi.

ii) Additional Bench at Mumbai.

iii) Additional Bench at Kolkata.

iv) Additional Bench at Chennai.

The Principal Bench consists of one Chairman and two Members. The Additional Benches consist of one Vice-

Table 3.37: Consolidated Receipt and Disposal of Applications in ITSC

Financial Year pending	No. of cases pending at the admission at the beginning of financial year i.e. 1st April	No. of admittes cases received at the beginning of financial year i.e. 1st April	Total no. cases pending Court beginning of the financial year i.e. 1st April 2 (a) + 2(b)	No. of applications {2(c) + 3} during the year	Addition due to High 245D(1)/ Order	Total for disposal	Cases admitted u/s. u/s 22 D(1)	Cases ejected {5(b) +	Disposal during the year date 245D(4)	Total pendency reduced for order 5(c)}	Balance pending as on u/s 245D(1)	Balance pending as on date u/s. 245D (4)	Total 7(a) + 7(b) for
1	2(a)	2(b)	2(c)	3	3(a)	4	5(a)	5(b)	5(c)	6	7(a)	7(b)	7(c)
2001-02	330	1608	1938	671	-	2609	365	17	323	340	593	1650	**2243**
2002-03	593	1650	2243	560	-	2803	521	55	218	273	577	1953	**2530**
2003-04	577	1953	2530	491	-	3021	328	33	155	188	707	2126	**2833**
2004-05	707	2119	2826	434	-	3260	317	159	214	373	665	2222	**2887**
2005-06	665	2222	2887	479	-	3366	311	103	198	301	730	2335	**3065**
2006-07 (upto 31. 12.06	730	2335	3065	506	-	3571	288	50	158	208	898	2465	**3363**

Chairman and two Members each. The Chairman is the presiding officer of the Principal Bench and the Vice Chairmen are the presiding officers of their respective Benches.

Each settlement application involves computation of income/ wealth for a number of assessment years. A majority of cases settled pertained to search and seizure operations and involved complex investigations. In the normal course, these cases would have involved protracted litigation. Table 3.37 gives the statistics of pendency/disposal for the period 2006-07 (consolidated for all Benches) and immediately preceding years.

17. Customs & Central Excise Settlement Commission

Function & Working

The Central Government have constituted the Customs & Central Excise Settlement Commission under section 32 of the Central Excise Act 1944 vide notification No.40/99-CX(NT) dated 09.06.99 and 41/99-CX(NT). The Commission consists of a Principal Bench presided over by the Chairman at New Delhi and 3 Additional Benches at Chennai, Mumbai and Kolkata presided over by Vice Chairman with 2 Members in each Bench. The present sanctioned strength of the Commission is 118 Officers and staff – 30 each for New Delhi, Mumbai and Kolkata and 28 each for Chennai. The Commission functions in the Department of Revenue as an Attached Office of the Ministry of Finance.

The basic objective in setting up of the Settlement Commission is to expedite payments of Customs and Excise duties involved in disputes, by avoiding costly and time consuming litigation process and to give an opportunity for tax payers who may have evaded payment of duty to come clean. Settlement Commission is therefore set up as an independent body, manned by experienced tax officers of “integrity and outstanding ability”, capable of inspiring confidence in the Trade and Industry and entrusted with the responsibility of defining and safeguarding “Revenue Interest.” Settlement Commission has thus given an opportunity for providing a channel for expeditious settlement of tax disputes under the Customs & Central Excise laws in a spirit of conciliation, rather than prolonging them through adversarial attitude. Any assessee, importer or exporter desirous of settling a tax dispute by the Settlement Commission has to invoke the jurisdiction of the Settlement Commission voluntarily, making full and true disclosure of the duty liability accepted by him and in turn for the same, the Settlement Commission is vested with the powers to grant him immunity either fully or partially from penalty, interest and fine under the provisions of Customs & Central Excise Acts and immunity from prosecution under the provisions of above Acts and Central Acts.

c) Performance/achievements up to last year i.e. 2005-06. Given in Table 3.38.

Table 3.38: Highlights of the Performance and Achievements		
Number of applications received during 2006-07 (up to Dec. 06)	Number of applications disposed during 2006-07 (up to Dec. 06)	Duty Settled during 2006-07 (up to Dec. 07) (Rs. in crore)
1412	1348 (includes the applications received during previous years but disposed during current year)	189.6

18. Authority for Advance Rulings (Income Tax)

The Authority for Advance Ruling (Income Tax) is a quasi-judicial body under the Ministry of Finance, which is chaired by a retired Supreme Court Judge. It was established in 1993 as per the provisions of Chapter XIX B of the Income Tax Act 1961 inserted by Finance Act 1993 w.e.f. 01.6.1993. The Authority gives binding rulings on the taxation issues raised by non-residents relating to a transaction undertaken/ proposed to be undertaken with a resident. It also gives rulings in the case of PSUs subject to necessary clearance.

The Authority has been quite active since its inception and much in demand by the Industry. The Authority has been mainly dealing with the interpretation of various provisions of the IT Act and that of Double Taxation Avoidance Agreements. The feedback from the industry is that with increasing foreign investment in India, it has become absolutely necessary for the investors to ascertain in advance, tax implications of their proposed transactions and ventures. It is a matter of pride that some of the recent Advance Rulings have been favourably discussed in International and National Conferences such as the IFA Conference in Amsterdam and BMA International Tax Conference in Mumbai (held in December, 2006) and other conferences.

Organisational Set-Up

The Authority, headed by a retired judge of the Supreme Court of India and having two members of the rank of Additional Secretary to the Govt. of India – one each from Indian Revenue Service & Indian Legal service, is a quasi-judicial body having powers of a Civil Court. The Authority is assisted by a secretariat, which is headed by a Commissioner of Income-Tax designated as Secretary of the Authority.

Functions

As Authority for Advance Rulings (Income-Tax)

Non-residents or specified categories of residents, desirous of obtaining an advance ruling relating to Income tax can make an application in the prescribed form stating the facts relating to the transaction and the question on which the advance ruling is sought. After examining the application and obtaining the report of the designated Commissioner of Income-tax and the relevant records wherever available, the Authority passes an order in writing either admitting or rejecting the application. But no application can be rejected without giving the applicant an opportunity of being heard. After hearing the Commissioner and the applicant in detail, a ruling on the issues referred to, is pronounced by the Authority in writing. The ruling is binding on the tax authorities and also on the applicant. No appeal is provided against the ruling. Majority of rulings involving interpretation of tax laws and the Double Taxation Avoidance Agreements between India and foreign countries are published in tax journals.

As Central Sales Tax Appellate Authority

The Authority of Advance Rulings has also been notified vide notification dated 17.3.2005 (as amended by Notification dated 07.6.2005) as Central Sales Tax Appellate Authority to settle Inter-state disputes falling under section 6A read with section 9 of the Central Sales Tax Act, 1956. It started functioning as CSTAA wef 01.3.2006 vide notification-dated 03.2.2006.

Performance

As Authority for Advance Rulings

The Authority has so far pronounced rulings/passed orders in 500 cases, on intricate questions of law and facts which have facilitated the non-residents in their investment ventures in India. Many of the questions coming up before the Authority are such where, generally, decisions of High Courts or the Supreme Court are not available. Although the rulings are binding only in the case of applicant, coming from a high-powered authority, the rulings have a persuasive value, and their applicability in any other case on same or similar facts cannot be denied. This also helps in achieving uniformity in application of the legal provisions and ensuring equality before law. Owing to the uniqueness of these features, the setting up of the Authority for Advance Rulings in India has been welcomed by every one as a step in the right direction.

Statistical information about the performance of the Authority since inception till 15.1.2007 is given in the Table 3.40.

Besides the above, a large number of applications U/s 245R(2) have also been heard and orders passed.

As Central Sales Tax Appellate Authority

In view of the amendment in Section 25 (as substituted by section 7 of the Central Sales Tax (Amendment Act, 2005) of the Central Sales Tax Act, 1956 all appeals except the appeals filed against orders of the Highest Appellate Authority of the State, pending before the Central Sales Tax Appellate Authority were transferred to the Highest Appellate Authority

Table 3.39

Year	No. of Applications received	No. of Applications disposed	Duty Settled (Rs. in crore)
1999-2000	3	1	
2000-01	328	174	21.28
2001-02	559	216	26.64
2002-03	656	470	187.51
2003-04	753	572	114.04
2004-05	1273	1349	181.25
2005-06	1587	1491	129.09
2006-07 (up to Dec.)	1412	1348	189.6
Total	**6571**	**5620**	**849.41**

Table 3.40

Financial Year	Opening balance	Applications received	Total	Decision	C/f
1993-94	Nil	05	05	Nil	05
1994-95	05	15	20	06	14
1995-96	14	66	80	42	38
1996-97	38	66	104	55	49
1997-98	49	69	118	75	43
1998-99	43	47	90	37	53
1999-2000	53	31	84	48	36
2000-2001	36	39	75	25	50
2001-2002	50	55	105	31	74
2002-2003	74	16	90	18	72
2003-2004	72	26	98	36	62
2004-2005	62	23	85	65	20
2005-2006	20	67	87	26	61
2006-2007 (Upto 15.1.2007)	61	19	80	62	18

Table 3.41

Financial Year	Opening balance	Applications received	Total	Decision	C/f
2006-07 (upto 15.1.2007)	5	16	21	3	18

of the concerned state from 01st March, 2006. As on 01.3.2006, the Authority have received 104 appeals. Out of the 104 appeals, 99 appeals were transferred to the Highest Appellate Authority of the concerned state since the appeals were not filed against the orders of the Highest Appellate Authority of the State. The pendency position after 01.4.2006 is given in Table 3.41.

Increasing the Awareness of Authority for Advance Rulings in the Commerce and Industry Sectors and NRIs

A number of active and fruitful efforts have been made by this Authority for widening the awareness of the facility available to Foreign Investors through AAR.

i) In the International Taxation Conference in December, 2006 Mumbai by Foundation For International Taxation, IFA India Branch, and IBFD a session was exclusively addressed to the issues and cases before the AAR. A powerpoint presentation was made by Secretary AAR alongwith presentation of a paper by Honorable Chairman AAR giving an analysis of contradictory interpretation of Articles 1 & 4 of DTAA.

ii) At the International Tax Conference – New Delhi 2006 organized by FICCI in collaboration with OECD and IBFD in November, the Honorable Chairman chaired the session on CECA between Singapore and India. At this conference also literature relating to AAR (IT) was made available to the participants who had come from various organizations and tax departments from US, UK, Singapore, Mauritius and other countries.

iii) The International Fiscal Association's 60th Annual Congress was held at Amsterdam wherein the Honorable Chairman and Secretary AAR (IT) actively participated in various discussions. The detailed paper prepared by the Honorable Chairman, Justice S.S.M.Quadri on the divided interpretations of Articles 1 & 4 of the DTAA (Double Tax Avoidance Agreements) was widely distributed. It evoked considerable interest in the various tax departments of other countries as well as the OECD representatives and IFA community, as also International Tax experts like Prof. Philip Baker.

Implication of Recent Rulings of AAR:

In many countries the advance ruling system is used explicitly as a tool to attract new investments. A potential investor weighing different investment locations may be lured to a country that will provide certainty, in advance, about the tax treatment.

Recent ruling given by the Authority in Fidelity Group of cases (AAR 678-686 & 694-723/2006) has wide and far reaching impact, particularly for the foreign institutional investors who want to invest in Indian companies through FII route. It was held that the profits arising from sale of portfolio investment in India could not be treated as business income. The rulings given by the Authority on vital issues such as this has immense significance for the Income-Tax Department as well foreign institutional investors who want to invest in Indian share market**.**

Honorable Authority has also given rulings on issues involving fringe benefit tax (FBT). The provisions relating to FBT were introduced very recently by the Finance Act, 2005 w.e.f. Assessment year 2006-07. In the case of Population Council Inc, USA (AAR 677/2006) it was held that even if the applicant does not have income chargeable to tax, it was liable to pay FBT u/s 115WA of the IT Act, 1961. In another case decided by the Honorable Authority being R & B Falcon (A) Pty Ltd, (AAR/730/2006) a company engaged in the business of providing mobile offshore drilling rig along with crew on rate charter hire basis, it was held that the transportation cost incurred for movement of offshore employees from their residence in home countries outside India to the place of work (rig in India) and back is liable to fringe benefit tax.

With increasing globalization, there is an increase in the number of people who are sent for rendering services outside India by their Indian employer. In a recent ruling given in the case of British Gas India Pvt Ltd, (AAR/725/2006) it was held that since the employment was exercised in UK, in the light of article 16(1) of the Double Taxation Avoidance Agreement with UK, tax was not deductible from the salary paid to the employees in India.

19. Authority for Advance Rulings (Central Excise, Customs & Service Tax)

Highlights of the performance and achievements during 2006-07

- Prompt disposal of the applications in accordance with the provisions of the statutes relating to advance rulings and the principles of natural justice is the USP of the Authority. During the period 1.04.06 to 15.12.06, 12 applications seeking advance rulings were received. Total number of applications for pronouncement of advance rulings by the Authority was 17 inclusive of 5 pending applications from the previous period. As on date11 applications have been disposed off and 6 applications are pending.
- Advance Rulings have been issued in 04 applications; one relating to Customs and three related to Central Excise issues. Orders were issued in seven cases, two relating to Customs issued under section 28I(2) of the Customs Act, 1962 and five relating to Service Tax issued under section 96 D(2) of the Finance Act, 1994(Service Tax provisions).
- Publicity measures were undertaken in order to create awareness among the trade and industry. All the Commissionerates/field officers were informed of the amendments brought about by the Finance Act, 2006 and requested to issue Public/Trade Notices for the information of trade and industry and public in general. Advertisements, highlighting the objective and basic scheme of advance rulings were published in leading newspapers. Similarly brochures containing the highlights of the scheme of advance rulings were circulated among the participants in Pravasi Bharatiya Divas held in January, 2006 in Hyderabad and the Punjabi Pravasi Divas held in Chandigarh on 14 & 15th January, 2006.
- Authority's website- www.cbec.gov.in/cae/aar.htm has been updated on regular basis to incorporate the latest Advance Rulings and Orders issued by the Authority. Due care is taken to promptly upload any statutory changes brought about by the Finance Act, each year, and any other legislation, like RTI Act, 2005 related to the Authority.

Functions and Working

To facilitate foreign investment into the country a number of steps has been taken by Government of India in the recent past. Setting up an Authority for Advance Rulings (Central Excise, Customs & Service Tax) to give binding Rulings, in advance, on Customs, Central Excise and Service Tax matters pertaining to an investment venture in India is one such measure. Legal provisions relating to Advance Rulings have been introduced in the respective statutes through the Finance Acts of 1999, 2003 and 2005. The scheme of Advance Rulings has assumed a greater and special significance in the context of greater emphasis on FDI. This is evident from the statutory changes brought about to expand the ambit of the Authority.

Authority for Advance Rulings, (Central Excise, Customs & Service Tax), is a high level quasi-judicial body comprising of a retired judge of the Supreme Court of India and two Members (of Additional Secretary rank) – who have wide experience in technical and legal matters. At present Hon'ble Mr. Justice S.S.M. Quadri is the Chairman and Dr. B.A. Agarwal, Addl. Secretary, Ministry of Law is a Member. The Office of the Authority is located on 4th Floor, Hotel Samrat, Kautilya Marg, Chanakyapuri, New Delhi – 110 021.

Under the scheme of Advance Rulings the following categories of investors are eligible to apply for an advance ruling:

- a non-resident investor setting up a joint venture in India in collaboration with a non-resident or a resident;
- a resident setting up a joint venture in India in collaboration with a non- resident,
- a wholly owned subsidiary Indian company of which the holding company is a foreign company who or which, as the case may be, proposes to undertake any business activity in India;
- a joint venture in India;
- a resident falling within any such class or category of persons, as the Central Government may, by notification in the Official Gazette, specify in this behalf.*

**Under this provision a resident proposing to import goods from the Republic of Singapore under the Comprehensive Economic Cooperation Agreement between the Republic of India and Republic of Singapore has been notified as an applicant vide Notification No. 69/2005-Custom(NT) dt.29.07.05.*

Advance rulings can be sought in respect of the following questions/issues :

(i) Classification of goods under the Customs Tariff Act, 1975, Central Excise

Tariff Act, 1985, and of taxable services under Chapter V of the Finance Act, 1994 (Service Tax);

(ii) Principles of valuation under the Customs Act, 1962, and the Central Excise Act, 1944;

(iii) Applicability, of notifications issued under the Customs Act, 1962, Customs Tariff Act, 1975, Central Excise Act, 1944 and Central Excise Tariff Act, 1985 having a bearing on the rate of duty; and of notifications issued under Chapter V of Finance Act, 1994;

(iv) Admissibility of input-tax credit under Central Excise law (CENVAT);

(v) Admissibility of credit of Service Tax under Chapter VA of the Finance Act, 1994;

(vi) Valuation of taxable services for charging Service Tax under the Finance Act, 1994;

(vii) Determination of Origin of goods in terms of the Rules notified under the Customs Tariff Act,1975 and matter relating thereto;

The process of obtaining an advance ruling is simple, inexpensive and transparent (only Rs. 2500/- have to be deposited through a Demand Draft with each application). Obtaining a ruling is highly expeditious as the Authority is statutorily required to deliver the same within 90 days of receipt of an application. Rulings are pronounced after providing an opportunity of being heard by the Authority and in pursuance of other accepted judicial norms. Advance Rulings pronounced by the Authority are binding on departmental officers engaged in assessment of goods and services and on the applicant, and hence rule out possibilities of disputes and litigation, subsequently. Advance Rulings are not appealable either by the department or the applicant, under the Customs, Central Excise or Service tax law. An Advance Ruling remains valid unless there is a change in law or the facts on basis of which the ruling was pronounced.

Advance rulings would indicate, in advance, the duty liability in respect of an 'activity', viz. 'import' or 'export' under the Customs Act, 'production' or 'manufacture' of goods under the Central Excise Act and 'taxable services' under the Service Tax law, proposed to be undertaken / provided by an applicant. (Service Tax law is administered by Central Excise officers).

(c) Performance/achievements upto the last year

- The Authority became functional in the financial year 2002-03. . The Customs (Advance Rulings) Rules, 2002 and Central Excise (Advance Rulings) Rules, 2002 were notified vide Notfn. Nos. 55/2002-Cus (N.T.) and 28/2002-Central Excise (N.T.) both dated 23.08.2002. The Service Tax (Advance Rulings) Rules were notified vide Notfn. No. 17/2003-S.Tax(N.T.) dated 23.07.03. The procedure to regulate the functioning of the Authority was laid down vide Authority for Advance Rulings (Procedural) Rules, 2003 issued vide Notification 1/ 2003-AAR dated 21.03.2003. Consequent upon the expansion in the scope of advance rulings and the experience gained, these Rules were streamlined and superseded vide Advance Rulings (Customs, Central Excise and Service Tax) Procedure Regulations, 2005 issued vide Notfn. No. 1/2005 dated 07.01.2005.
- The first application seeking an advance ruling was received on 20.11.2002. During the period 20.11.2002 to 31.03 2006, 80 applications were received, out of which rulings were pronounced in 62 cases (58 relating to Customs and 2 relating to each to Central Excise

and Service Tax). During this period Orders were also issued in 13 cases (5 relating to Customs issued under section 28I (2) of the Customs Act, 1962; 4 relating to Central Excise issued under section 23 D(2) of the Central Excise Act, 1944 and 4 relating to Service Tax issued under section 96 D(2) of the Finance Act, 1994). As on 31.03.2006, 5 applications were pending.

- Orders were issued in seven cases, two relating to Customs issued under section 28I(2) of the Customs Act, 1962 and five relating to Service Tax issued under section 96 D(2) of the Finance Act, 1994(Service Tax provisions).
- Brochures containing the basic essential information about the Authority were got printed and distributed / circulated amongst the prominent chambers of trade & industry within the country, India's Missions abroad and Embassies and High Commissions located within the country to make them aware of this new organization entrusted with the responsibility of implementing a totally new concept under the Customs, Central Excise and Service Tax Law. Advertisements were also published in leading newspapers to create awareness especially among the trade and industry.
- Meetings and seminars are held with the Chambers of Commerce & Industry in all the metropolitan cities in India, besides industrial / commercial cities like Pune, Ahemdabad , Bangalore & Allahabad.

20. Steps/Initiative Taken Towards Implementation of the Right to Information Act, 2005 & Matters Incidental Thereto.

Revenue Headquarters

Right to Information Act, 2005 stands implemented in Revenue Hqrs. The details of Central Public Information Officer are available on Department's website. Also all the manuals have been put on the website of the Department. The internal procedure formulated for handling the applications/requests for information is working smoothly. The requisite information for the year ending 31.3.2006 was sent to the Central Information Commission well in time.

State Taxes Section

Necessary action has been taken under section 4 of the RTI Act, 2005 to publish the information/ manuals on various aspects of functioning of the Sales Tax Section. These Manuals have been posted on the website of the Ministry of Finance to facilitate easy access to the general public. The information is being updated from time to time. Further, all the records in the Section are being properly maintained, so that as and when any information is sought, the same can be readily furnished. Upto 31.12.2006, 7 applications seeking information under RTI Act, 2005 were received in the State Taxes Section and all these applications have been disposed off.

Central Board of Excise and Customs

The Right to Information Act, 2005, came into force with effect from 12.10.2005 with the objective of setting out the practical regime of right to information for citizens of the Country to secure access to information under the control of Public authorities in order to promote transparency and accountability in the working of every Public authority. A democracy requires an informed citizenry and transparency of information which are vital to its successful functioning and also to curtail corruption and to hold Government and Public authorities accountable to the governed.

The following steps/initiatives have been taken by CBEC towards implementation of the Right to Information Act, 2005.

1. The information required to be disclosed under Section, 4 of the Right to Information Act, 2005 has been uploaded on the CBEC website as well ass the websites of various Commissionerates/Directorates wherever such website exist. Suitable Public Notices have also been issued by CPIOs in terms of clauses (ix),(x),(xi) and (xv) of Section 4(b) of the Right to Information Act, 2005.
2. The details including the names of CPIOs (Central Public Information Officers) and CAPIOs (Central Assistant Public Information Officers) for various subordinate offices and field formations under Central Board of Excise and Customs have been displayed on the CBEC website and are updated on quarterly basis.
3. The provisions of the Right to Information Act, 2005, have been given wide publicity through various forums like Information Facilitation Counters, Trade meetings and Public Notices etc.
4. The officers in field formations have been adequately sensitized about the responsibilities and obligations cast upon them under the RTI Act, 2005. National Academy of Customs Excise & Narcotics (NACEN) and its regional training institutes have also conducted Workshops for training of CPIOs and CAPIOs of the Customs and Central Excise Department.
5. As required under Section 25 of the Right to Information Act, 2005, the prescribed annual report for CBEC has been sent to post on the Central Information Commission website. The annual as well as quarterly reports on the monitoring of implementation of the Right to Information Act, 2005 are being posted on the CBEC website.

Central Board of Direct Taxes

The Right to Information Act, 2005' was passed by the Parliament and received the assent of the President of India on 15th June, 2005. It came into force w.e.f. 12th of October, 2005. However, Section 4 & 5 and some other Sections dealing with setting up of machinery for implementation of the Act have come into operation with effect from the date of enactment.

The task of implementation of RTI Act in the Income-tax

Department was a challenging one in view of its wide geographical coverage spanning the entire nation. The offices of the department are located at more than 514 stations all over India. It comprises staff strength of around 60,000 with regional jurisdiction divided among 116 Chief Commissioners of Income-tax. Keeping this in view, guidelines were issued to all the Chief Commissioners of Income Tax designating CPIOs/CAPIOs/Appellate Authorities. All the officers of the level of Commissioners of Income Tax, having a specific charge, were designated as CPIOs. At stations where there was no Commissioner level officer, the senior-most officer looking after Administration was designated as CAPIO to receive and forward applications to the concerned CPIO. In addition, for offices of Chief Commissioners of Income-tax, officers working at their Headquarters were designated as CPIOs. All the officers of the level of Chief Commissioners of Income-tax were designated as Appellate Authorities for their respective Regions. Similar arrangements were also made in respect of CBDT (Headquarters) and its attached offices. Thus, the total number of CPIOs in the Department is approximately 825.

As per Section 4(1)(b) of the Act, the specified details were required to be published before 12th October, 2005 so that public have minimum resort to the use of this Act to obtain information. The Central Public Information Officers/Central Assistant Public Information Officers (CPIOs/CAPIOs) were also to be designated before 22nd September, 2005 (within 100 days from 15th June, 2005) to facilitate dissemination of information.

The CBDT, being the Public Authority for the Income Tax Department, initiated following steps to ensure effective implementation of 'The Right to Information Act' :-

i) A meeting of the Board was held on 29-7-2005 in which finer points of the Act were discussed and an implementation schedule was finalised. Respecting the spirit of the Act and to meet the requirements of Section 5 of the Act, a structure of CPIOs/CAPIOs covering all the 514 stations, at which the offices of the Income Tax Department are located, was finalized. Regarding publishing certain information *suo moto* under Section 4(1)(b), a publication scheme was also finalized.

ii) In pursuance of the decisions taken in the said meeting, a detailed communication dated 10-8-2005 was sent to all Director Generals and Chief Commissioners of Income Tax requesting them to take various actions like appointments of CPIOs/CAPIOs, maintenance of proper records, preparing details for publications, spreading awareness and furnishing fortnightly progress reports to the Board in respect of actions taken as per the requirements of the Sections 4 & 5 of the Act. They were also requested to form a Core Team of Trainers for imparting training to CPIOs/CAPIOs and create awareness among other officers/staff.

iii) CBDT also directed National Academy of Direct Taxes (NADT), Nagpur to prepare necessary training material for the members of Core Team and send the same on CDs to all Chief Commissioners.

iv) A Committee under Chairmanship of Member(Revenue) was constituted to monitor the progress in implementation of the Act in CBDT as well as its field formations.

v) The Apex Committee constituted under the Chairmanship of Revenue Secretary in the Department also designated DOMS as the nodal office for CBDT for clarification of any doubts that may arise in implementation of the Act. The DOMS have since then issued number of clarifications to the field formations in this regard.

Performance during FY 2006-07

i) With regard to the appointment of CPIOs/CAPIOs, the CBDT met the deadline of 22nd September, 2005 and the CPIOs/CAPIOs were appointed in all its field offices (including CBDT) stationed at 514 locations throughout the country. To generate a sense of commitment and seriousness towards the provisions of the Act, generally the officers of the level of Commissioners of Income Tax were appointed as CPIOs.

ii) As regards the publication of information suo moto under Section 4(1)(b) before 12th October, 2005, a Committee was constituted by CBDT. This Committee was entrusted the task of ensuring publishing/uploading of relevant material. The publication scheme, so finalized for the purpose, outlined the items to be published/uploaded centrally by this Committee and the items to be published/uploaded locally by the respective Cadre Controlling CCITs through the local linkages to be provided to them with the Central website. To achieve this, the Cadre Controlling Chief Commissioners of Income-tax were provided with regional linkages to the Central website of the Department (i.e. incometaxindia.gov.in) having facility to upload/update data available locally. In these Regions, nodal CPIOs (i.e. CPIOs in the offices of Cadre Controlling Chief Commissioners) were specifically designated to look after the work relating to implementation of section 4(1)(b) of the Act on regular basis.

iii) The NADT published and circulated a Training Manual to all the field formations along with various Power-point Presentations to facilitate training and awareness in the field formations. The field formations have already conducted training sessions/Seminars among their CPIOs/CAPIOs and its officers.

iv) The CBDT, in its efforts to effectively implement the Act, issued various communications to the field formations regarding Information Audit in field offices and cataloguing/indexing of records, carrying out information audit, seeking suggestions. This would help in easy and timely retrieval of information helping adherence to the time-limits.

v) The Principal Chief Controller of Accounts was also requested to formulate a mechanism/procedure for accounting the fee in the field formations of Income Tax Department that will be collected under the Right to Information (Regulation of Fee and Cost) Rules, 2005. The mechanism was finalized with the approval of the Controller General of Accounts.

vi) With a view to have uniform Monitoring & Reporting Mechanism, information from all the Cadre Controlling Chief Commissioners of Income/Directors General of Income-tax was being collected in a suitably devised proforma. However, this mechanism of reporting was revised in view of CIC guidelines and the concerned authorities are following the monitoring mechanism as prescribed by CIC.

vii) A Case Law Digest on decisions of Central Information Commission was prepared and circulated during the National Convention organized by the Central Information Commission in September 2006 at New Delhi. This document is available on the website of NADT *nadt.gov.in* and is periodically updated.

Authority for Advance Rulings (Customs & Central Excise)

Right to Information Act, 2005 has been implemented by the Authority for Advance Rulings (C. Ex., Cus. & S.T.) as per directions issued by the Deptt. of Revenue from time to time. Twelve manuals, as prescribed under Right to Information Act and related to the Authority, were duly prepared and up-loaded on the website of the Authority i.e. www.cbec.gov.in/cae/aar.htm. PIO under the said Act has also been duly notified and relevant details posted on the website as well as placed on the Notice Boards of the Authority.

Appellate Tribunal for Forfeited Property

ATFP has published the requisite information (all mannuals) prescribed under the RTI Act on the website of the Department of Revenue in July, 2005. 10 applications under RTI Act were received and all of them have been disposed off.

Central Bureau of Narcotics

In order to smoothly implement the RTI Act, 2005, a total of 37 CPIO's in Central Bureau of Narcotics, Hqrs office and in the field formations at different locations have been appointed are attending to their responsibilities under the RTI Act. Further help centers to cater to the needs of general public have also been established. The activities of help centers are being monitored regularly for providing proper service to the people. Further, it is also to inform that a manual under Sec. 4(1)b of RTI Act, 2005 has been placed in our website www.cbn.nic.in for reference of all concerned.

Competent Authorities (SAFEMFOPA & NDPSA)

The Public Information Officer (PIO), Assistant Public Information Officer (APIO) and Appellate Authority as defined under the Right to Information Act have been designated. A Nodal Officer for liaisoning with the Postal Department has also been appointed. The procedure for receipt and disposal of applications received under the Right to Information Act has been laid down clearly. So far two applications seeking information under RTI Act, 2005 have been received. The same have been immediately disposed off.

Customs and Central Excise Settlement Commission

All efforts have been made by this Commission to administer and implement the spirit of the Act. Total number of 8 applications have been received and disposed of. The manual relating to this office has already been placed on the website of Department of Revenue. Relevant Public Notices from time to time have also been issued in this regard.

Income Tax Settlement Commission

In so far as the Income Tax Settlement Commission is concerned, the Public Information Officers have been appointed i.e. one each at Principal Bench, New Delhi and at its Additional Benches situated at Chennai/Kolkata & Mumbai. A four members committee has also been constituted at Principal Bench, New Delhi and as well as at the Additional Bench, Mumbai for the quicker disposal of the applications received under the Right to Information Act, 2005.

Authority for Advance Rulings (Income Tax)

Necessary steps/initiatives have already been taken for implementation of the Right to Information Act 2005. The 17 manuals as required under clause-4(i)(b) of the Act has been compiled. The Public Information Officer and Asstt Public Information Officer has been appointed by AAR. A website has been launched containing information regarding particulars of the organisation, function and duties, directories of officers and employees. The relevant provisions of the Income-tax Act, Income-tax Rules and the Procedure rules regarding AAR have also been provided on the website. All the rulings pronounced by the Authority are regularly hosted and updated on the website for the benefit of the public.

21. Action Taken To Implement The Flagship NCMP Programmes & Other Important Policy Initiatives Announced Through Finance Minister's Speech, 2005-2006

Policy Initiatives announced under NCMP – Value Added Tax

Under NCMP, it was stated that "The UPA government is pledged to the early introduction of VAT after all the necessary technical and administrative homework has been completed, particularly on issues like the integration of service sector taxation and compensation to states. ……."

The necessary action has already been taken on this policy announcement. State VAT has already been implemented w.e.f. 01.04.2005. 31 States/ UTs have already implemented VAT (as on 01.01.2007). The UT of Puducherry has decided to implement VAT w.e.f. 01.04.2007. Uttar Pradesh has not yet taken a decision to implement VAT. The remaining 2 UTs (Andaman & Nicobar Islands and Lakshadweep) do not levy sales tax/ VAT. Since it is a State subject, the Central Government has played the role of a facilitator. The Central Government is committed to continue playing this role to carry further this process of tax reforms at State-level.

Policy initiatives announced in Budget Speech, 2006-07 – Goods and Services Tax

Para-155 of the Budget Speech mentions that the country should move towards a national-level Goods and Services Tax (GST) that should be shared between the Centre and the States and proposes 01.10.2010 as the date for introducing GST. Para-175 mentions that the implementation of State VAT has been a resounding success and that the non-VAT States should also join the mainstream because the next stage of reform depends on all States implementing VAT. It also mentions that discussions are going on with the Empowered Committee to reach an agreement on the issue of compensation for loss of revenue on account of the proposed phasing out of CST, so that the process of phasing out of CST can begin. In this connection, it is stated that the issues of all States implementing VAT, phasing out of CST and eventual introduction of GST are inter-connected. Any effective move towards GST requires, as a pre-condition, that all States first implement VAT. During 2006-07, substantial progress has been made on this front. 6 more States have implemented VAT and UT of Puducherry has committed to implement VAT w.e.f. 01.04.2007. The only State which is yet to take a decision on implementation of VAT is Uttar Pradesh. Efforts are going on to persuade Uttar Pradesh also to implement VAT. Similarly, during 2006-07, broad consensus has been arrived at with the EC on the issue of package of compensation for revenue loss on account of phasing out of CST. Accordingly, it is proposed to reduce CST from 4 per cent to 3 per cent w.e.f 01.04.2007 and thereafter, by 1 per cent from 1st April every year. Further necessary steps are being taken (31.01.2007) Para-176 of the Budget Speech mentions about inclusion of LPG (Domestic) in the list of declared goods under the CST Act, 1956. This proposal has already been implemented.

Central Board of Direct Taxes

Text of FM Budget Announcement

"1 am glad to inform the House that technology is being increasingly employed to modernize tax administration. The Departments of Income Tax and Customs and Central Excise will undergo Business Process Reengineering (BPR). Nationwide networks will connect 745 income tax offices in 510 cities and 550 customs and central excise offices in 245 cities creating national databases. National data centre, data warehousing facilities and disaster recovery sites are being set up. Jurisdiction - free filing of returns, online tracking of status of accounts and refunds of income tax will be possible. Introduction of a risk management system and Electronic Data Interchange (EDI) in the Customs Department will reduce dwell time for cargo. E-payments of customs and excise duties will be possible. Both Departments will have fully computerized networks by end 2006."

Status of Implementation of Action Points Contained in Budget Announcements as on 31.12.06 is at Table 3.42

22. E-governance Activities

Revenue Headquarter

In order to facilitate easy tracking of movement of files and papers, personal staff of officers and persons diarizing in various Sections of the Department have been imparted training on DMIS (Document Management Information System). This Software facilitates monitoring the movement of letters and files within the Department. Now the officers have started using this software extensively. The conventional system of diarizing the letters/papers and movement of files through movement registers has been done away with.

All field offices reporting to Revenue Headquarters have been impressed upon to make routine correspondence through e-mail so that delays in transmitting such correspondence reduce.

Active Directory has also been created on LAN for officers of the Department by the NIC. The same is being used to exchange and save files in the Department including Central Board of Excise & Customs and Central Board of Direct Taxes.

State Taxes Section

Under the National e-Governance Plan (NEGP) launched by the Department of Information Technology, the Department of Revenue is coordinating a Mission Mode Project (MMP) on 'Commercial Taxes', which is an important e-Governance initiative in the field of State taxes. The Department has engaged the National Institute of Smart Government, Hyderabad (NISG), as strategic consultant, with a view to develop overall scheme and framework within which individual State can take up the Project. NISG is expected to submit its Report shortly, after which further steps will be taken to finalize the scheme and framework.

Central Board of Direct Taxes

The vision document 2010 of the Income Tax department identified quality taxpayer service as a key area. In this connection the main objective of the department has been defined as "To enable taxpayers to meet their normal tax obligations in a convenient manner without visiting Income Tax Office." The computerisation programme of the department has accordingly been aligned to achieve the aforesaid objective by way of:

(i) e-delivery of taxpayer services;

(ii) augmentation of departmental computer infrastructure; and

(iii) setting up Tax Information Network (TIN)

Table 3.42: Status of Implementation of Action Points Contained in Budget Announcements as on 31.12.06

Sl. No.	Budget Announcement	Status	Completion Date	Remarks
1.	Business Process Reengineering (BPR)	Appointment of BPR Consultant	31.1.2007	Global Tender inviting Expression of Interest from interested consultant for the BPR Project was floated. After short listing the eligible bidders, the Request for Proposal was issued to 4 consultants on 30.08.2006. The process of selection of consultant is currently in progress. As per the directions of Empowered Committee, a final negotiation to settle the value of contract is to be held on 18.1.07 with M/s. Price Water Coopers.
2.	**All India Income Tax Net Work**	Phase-I of network comprising of 75% of the user base in 60 cities and 158 offices completed. Phase-II of network in Phase-II of network in 450 cities in 557 offices at an advanced stage of completion. Work has been completed in 329 buildings. Out of remaining 228 buildings Phase-II of network in 450 cities in 557 offices at an advanced stage of completion. Work has been completed in 329 buildings. Out of remaining 228 buildings work is in progress in 166 buildings. For the remaining, MSP is taking up the work shortly in 62 new buildings. MSP has requested for a proof of concept on VSAT for 49 buildings out of 166 pending buildings originally contracted.	The entire network has been completed by end Sept. 30.6.07.	Offices in Phase -I have been being shifted to new network and completed as on 30-09-06. The MSP has committed to complete the work at the remaining sites by 31.3.2007. However, testing, integration and final acceptance will take more time and hence the present completion date has been fixed as 30.06.07.
3.	Setting up of National Data Centre with Business Continuity Site and Disaster Recovery site.	The National Data Centre with alternate site will be set up through the appointment of Systems Integrator. Technical and Commercial evaluation of the System Integrator (SI) bids have been completed. Proposal for appointment of the best evaluated bidder will be placed before the Empowered Committee in its meeting in January 2007. SI to be in place by 30-08-07. Data Centres for Primary and BCP have been finalized with VSNL at Delhi and Mumbai and for Disaster Recovery Site with Sify at Chennai. Purchase Orders have been issued.	30.08.2007	
4.	Jurisdiction free filing of returns of Income .	Infrastructure fore-filing is inplace. Software for processing is ready and completed.	November, 2006	Jurisdiction free returns would be received and processed from following: 1. All e-file return received during the year 2. Compulsory filing of electronic return by companies. 3. Returns filed for the current year in the Post Offices.
5.	Online tracking of status of account and refunds of income tax.	Facility for online tracking of tax payments and TDS is available to taxpayers.		Online tracking of status refunds is expected to be operationalised on setting up of National Data Centre.
6.	Fully computerised department.	—	August, 2007	

1. E-delivery of taxpayer services

Dissemination of tax information on web

Department's website www.incometaxindia.gov.in provides exhaustive information on direct tax laws, rules, procedures, FAQs etc as also down loading of all forms, challans and return preparation software etc. during the current fiscal, facility for e-filing of all Income Tax Returns (Form1, 2, 3,3B & 2F) was made available. The website www.incometaxindiaefiling.gov.in was revamped to cater to all corporate tax payers who were required to file e-returns. The site was made user-friendly by providing for easily downloadable softwares and FAQs to help the taxpayers. Total user registration was 345,171 and 314,834 corporate returns were e-filed up to 31.12.06. Out of these, 81,552 returns were filed using digital signatures. The website of the department is one of the most visited websites in the world, with average number of visitors at about 4 lakh per day.

2. PAN related services

Over 58 lakh PANs were allotted in F.Y. 2005-06 i.e. over 5 lakh per month. Average waiting time has come down from 15 days to 10 days. Total number of PANs allotted up to 30.11.2006 was 4.94 crore. (see Table 3.43)

Following PAN related services are available:

(i) Online filing of PAN applications

(ii) "Tatkal" allotment of PAN

(iii) Web tracking of status of PAN applications

(iv) Redressal of PAN grievance through Call Centre 'Aayakar Sampark Kendra' (ASK) {0124-2438000}

During the current fiscal, duplicate PANs of over 13 lakh taxpayers were identified and removed from the database.

Online preparation of returns of income:

Free software for preparation of returns of income by taxpayers not having business income has been provided on the website.

e-filing of returns of income:

(i) The functionality for electronic filing of returns of income through intermediaries, and direct internet filing by eligible taxpayers under digital signature was operational for taxpayers on the network in the last year.

(ii) This year direct internet filing for all assesses throughout the country without intermediaries or digital signatures was introduced. All corporates were required to e-file the returns of income. Total e-returns filed till 31/01/07 were 3.22 lakhs.

e-payment of tax:

Facility for payment of direct taxes through internet is available through the website of TIN i.e. www.tin-nsdl.com. Facility to

Table 3.43

Year	2001-02	2002-03	2003-04	2004-05	2005-06
Allotment	26,78,764	58,74,623	44,60,038	63,73,028	58,98,470

Table 3.44

Financial Year	Returns processed on networked computers	Returns processed onstand alone computers	No. of returns processed on computers	Refund cheques issued (in lakh)
2001-02	10,58,288	4,25,584	14,83,872	26.72
2002-03	92,85,705	86,41,337	1,79,27,042	39.87
2003-04	1,06,99,279	96,94,397	2,03,93,676	56.66
2004-05	1,23,63,549	80,18,443	2,03,81,992	39.77
2005-06	1,22,79,406	98,87,966	2,21,67,372	44.02

Table 3.45

TDS Returns for	e-TDS returns received	e-TCS returns received
2005-06(Ist Quarter)	4,20,746	8,118
2005-06(2nd Quarter)	4,44,761	8,911
2005-06(3rd Quarter)	4,59,351	9,322
2005-06(4th Quarter)	5,70,901	10,474
2006-07(1st Quarter)	3,83,773	8,566
2006-07(2nd Quarter)	3,55,050	8,503

download preprinted Challans with name and PAN/TAN has been provided on the website http://incometaxindiaefiling.gov.in. A facility to verify payment of tax through internet is also available on the website http://tin-nsdl.com.

2.6 Faster processing of returns and issue of refunds:

Over 2.2 crore returns have been processed on computers during F.Y. 2005-06. Relevant statistics are given in Table 3.44.

2.7 Electronic credit of refunds:

Facility for electronic credit of refunds to the bank account of taxpayers, which was introduced in 12 cities for salaried taxpayers, has been extended to all categories of taxpayers and 15 more cities have been brought into the network. Besides, a pilot for the Refund Bankers Scheme was launched in partnership with State Bank of India.

2.7.1 A pilot for the Refund Bankers Scheme was launched in partnership with State Bank of India in some charges of CCIT Delhi and CCIT Patna. The work of printing, preparation and delivery of refund cheques would be done by the Refund banker.

2.8 Electronic filing of TDS/TCS returns:

Particulars of e-TDS returns received till 15.12.06 are given in Table 3.45.

2.9 Computer Assisted Selection of Cases for Scrutiny:

A system for risk based Computer Assisted Selection of Cases for Scrutiny has been introduced during F.Y. 2004-05 at 60 stations on network. This has replaced discretion-based selection of cases for scrutiny with a non-intrusive non-discriminatory system of selection. A total of 1,51,876 cases were selected for scrutiny in 2006 which includes 60,580 cases selected on AIR criterion.

3. Augmentation of Departmental Computer Infrastructure

3.1 Setting up Single National Database

Migration of existing application software from 2-tier to 3-tier and Consolidation of 36 regional databases into single national database is under progress. This will enable following functionalities:

a) Any time anywhere computing

b) Jurisdiction free filing / processing;

c) All India data matching;

d) Centralized MIS reporting

3.2 **National Data Centre** and appropriate Business Continuity and Disaster Recovery site is being set up to house the single national Database. Contract has been awarded for complete renovation of the office building at Vaishali, Ghaziabad by 30.08.07.

3.3 **All India virtual private network (VPN)** is being set up to link 715 income tax offices in 510 cities across the country. The project was taken up in 2 phases. Phase I consisted of 60 cities and Phase II, 450 cities work in Phase-I has been completed while Phase II is expected to be completed by 31.06.2007. This will link 12,000 departmental users to the single National database in a highly secure network with an assured up time of 99 per cent.

4. Setting up Tax Information Network

4.1 **Tax Information Network (TIN):** has been set up outside the Department. This is being hosted by National Securities Depository Limited (NSDL) as a repository of information relating to:

- Tax payments – coming online from banks under Online Tax Accounting System (OLTAS)
- Tax deductions coming from TDS returns - filed electronically as well as filed on paper and digitized at TIN.
- High value financial transactions coming through Annual Information Returns. These have started being filed in electronic format with TIN using PAN as the key identifier from August 2005. Information available in these returns were used as input for computerized selection of cases for scrutiny on intelligent criteria, and deepening of tax base.
- Facility for generation of electronic TDS accounts is operational and deductees can view their electronic TDS accounts on the internet.

4.2 **Online Tax Accounting System (OLTAS):** On line tax accounting system has become functional since 01.06.2004. Under this nearly 12,900 branches of 34 designated banks authorised to collect direct taxes are transmitting information of tax payments online to the Department through TIN on T+3 basis. The procedure for payment has been simplified. The number of challans has been reduced from 7 to 3. Blank bar coded challans with preprinted PAN and name have been sent to Companies, firms and TDS deductors for facilitating use of PAN.

4.3 **Computerisation of TDS/TCS functions:** TIN is providing facility for e- filing of TDS/TCS returns and digitization of paper TDS returns. The information in respect of deductees available in TDS returns can also be used for widening of taxbase using PAN as the key identifier. In Phase–II facilities for dematerialisation of TDS certificate are being set up through TIN.

4.4 **Annual Information Returns:** Scheme for filing of Annual Information Returns of high value financial transactions by main nerve centres of financial activities such as Credit Card companies, banks, Registrar of immoveable properties, mutual funds etc., is in operation from this year. The returns filed on electronic medium with TIN giving party-wise break up of specified high value financial transactions made by different parties, with PAN as the key identifier are tabulated. See Table 3.45.

Information available in the returns for FY 2004-05 have been utilized for generating cases for scrutiny under CASS and for identification of non-filers to widen the tax base.

5. Business Process Re-Engineering

5.1 A Directorate General of Income Tax (Business Process Reengineering) was created during the fiscal to undertake a study with a view to improve the functional efficiency and effectiveness by rationalizing the structure, standardizing the work norms and induction of technology. At present, Directorate is in the process of selecting the consultant for this exercise.

The various entities involved within the Income tax Department and outside to deliver E- services are briefly described below.

NCC - National Computer Center is the apex level and is located in New Delhi. It holds the All India PAN database. NCC also holds other specific data required for validation purposes like codes and parameters relating to applications and business processes. The storage at NCC provides central control and also maintains consistency and integrity of data to be used by end users across the country.

RCC - Regional Computer Centres are the regional hubs for all computerization activities of ITD. The processing for a particular region in accordance with the jurisdiction hierarchy is carried out through the database at RCC. The data related to the assessees of a region is completely maintained at respective RCC. The data that is unrelated to assessees of one region is transferred to other regions through the NCC as and when requested by the target region. NCCs and RCCs are connected through at overall tax network developed by Bharti known as TAXNET.

TIN-FC: Tax Information Network - Facilitation Centres were established as a gateway of online information coming to Department from other agencies. Information relating to Tax payments coming from banks, Tax deductions from TDS returns and high value financial transactions coming from AIR (Annual Information Returns) are all compiled at the TIN-FCs. These centers are managed by service provider NSDL appointed by the Department to provide services to the citizens. UTITSL is also employed as another service provider to render registration services related to PAN.

Central Board of Excise & Customs

The projects already implemented and those under implementation by the CBEC are in line with the proposed vision of the National e-Governance plan. Most of the projects undertaken by CBEC have targeted the business users such as importers and exporters, manufacturers and the service providers, and in these initiatives, the department is guided by the following principles:

- Citizen-centric delivery of services through "single window" interface.
- Providing services on an "anytime, anywhere" basis.
- Ushering in Transparency and Accountability.
- Simplification of procedures.
- Reduction in Transaction Costs.
- Minimization of manual interface.
- Encouraging voluntary compliance.
- Synergy between various Tax Systems.

Efforts are being made to make the Department's services available over the internet and through various service centers. Integrated service delivery is also being attempted by integrating processes, cutting across diverse field formations under CBEC and also by integrating with partner agencies such as Banks, Airlines, and Custodians etc.

As against 23 automated Customs locations during 2003-04 with 87 per cent of the import and export declarations filed and processed in EDI system, this year the processing has increased to 94 per cent covering 34 major Customs locations. However, further EDI coverage of the remaining Customs locations will now be undertaken under the Consolidation Project. Presently this project is under execution and is being supervised by the Empowered Committee set up in the Ministry of Finance.

The projects of CBEC have also helped in making the process of assessment of goods transparent due to the following features:-

- Document status information through use of Tele-enquiry system, Touch Screen Kiosks, SMS, display of Document status on TV monitors and on local web sites leading to greater transparency in the monitoring of shipments by trade.
- Transparency engendered through Document Tracking, Status Query and Help Desks at ICEGATE.
- Information dissemination through departmental Website: www.cbec.gov.in and www.icegate.gov.in.

Further, the following major initiatives are also being undertaken for upgradation of systems and moving towards e-mode :

i) Introduction of Self Assessment based on Risk Management System (RMS) and Post Audit in Customs clearance to promote faster clearance of cargo, to facilitate low risk importers/exporters and to provide effective enforcement in high-risk cases. RMS(import module) has been implemented presently at 13 custom locations and it is proposed to extend it at other major locations by 31/03/2007;

ii) Under the Consolidation Project, approved by the CCEA in February 2005, an additional 35 locations are proposed to be brought under automation. The implementation of the Consolidation Project, is being monitored by the Empowered Committee constituted by the Ministry of Finance; IIT Delhi has been appointed as the consultant.

The project's deliverables are as under:

Table 3.46					
Sl.	Category of information	FY 2005-06		FY 2004-05	
		No. (lakh)	(Rs. in crore)	No. (lakh)	(Rs. in crore)
1	Cash Deposits aggregating Rs.10 lakh or more	2.49	8,87,543	5.50	50,583
2	Credit Card bills aggregating to Rs.2 lakh or more	1.19	4,199	3.63	5844
3	Purchase of Units of Mutual Fund of Rs.2 lakh or more	9.02	9,76,032	6.19	7,76,158
4	Acquiring Bonds or Debentures of Rs.5 lakh or more issued by Company	0.18	95,522	0.29	95,449
5	Acquiring shares of Rs.1 lakh or more	0.83	40,873	1.47	75,491
6	Acquiring Immovable Property valued at Rs.30 lakh or more	0.42	71,876	0.33	40,141
7	Sale of immovable property valued at Rs.30 lakh or more	0.42	72,941	0.37	39,917
8	Investment of Rs.5 lakh or more in Bonds issued by Reserve Bank of India	1.29	1,76,535	0.92	3,16,307
	TOTAL	**15.84**	**23,25,521**	**18.70**	**13,99,890**

a) Consolidation of the existing and proposed IT infrastructure.

b) Comprehensive networking linking all offices of CBEC

c) Development of Web based application for Customs, Central Excise and Service Tax covering all major activities of CBEC.

d) Setting up of Data Ware House for meeting information and analytic needs of the CBEC and Ministry of Finance.

e) Setting up of intranet service for CBEC and its officers to enable communication and interchange of information.

Necessary steps are being taken to sensitize the staff as well as the members of Trade and Industry to the automation programme. The steps include:

- Publicity by the Directorate of Publicity and Public Relation;
- Issue of detailed Public Notices, Trade Notices by the Commissionerate offices giving details of procedures for the benefit of the trade and industry on e-governance; and
- Workshops and seminars by the Department as well as the Trade Organizations to sensitize the members of Trade and Industry regarding automation of procedures in Customs, Central Excise and Service Tax.

Directorate of Enforcement

In the Headquarters office of the Directorate of Enforcement at New Delhi, there are three LANs (Local Area Network) which have been developed by NIC (National Infomatics centre). While one is a Windows NT based LAN comprising of 11 clients provided to all senior officers of Headquarters, the other two are UNIX based LANs (one operations from Computer Room, Hqrs.) comprising of 16 terminals each located at different locations. Details for the above mentioned LANs are as below:-

UNIX Based LAN

The application software for this LAN has been developed by NIC to enable feeding of data into the Central Database from any of the terminals. Further software for word processing in English and Hindi is available on this LAN. Besides we have three different database also developed by NIC as indicated here below:-

I. All investigations and intelligences files (cases) are in this database and the same are regularly being fed to make this Database updated.

II. Personal information Database of all employees working in Delhi of the Enforcement Directorate. The Database is also used for salaries and personal claim of the staff etc.

III. Database developed by NIC for CEIB (Central Economic Intelligence Bureau) used for feeding the particulars of all the cases booked by Enforcement

Table 3.47		
Area of Service	**Service Details**	**Service Metric**
Taxpayer Information	Online information on • Tax laws, rules, circulars, Notification etc. • Procedures for PAN, TAN, eTDS returns, AIR and BCTT; • Tenders • Breaking News	Available : 24 X 7 Changes updated : within 24 hours
Forms	All statutory and non statutory forms are available online (in various formats (PDF and Fillable), with user friendly options) including • Return forms; • Challan forms; • PAN/TAN application forms	Available 24 X 7 Changes updated : within 24 hours
Online submission of	PAN/TAN applications can be submitted online	Available : 24 X 7 Changes updated within 24 hours Instant acknowledgement
Help in calculation of tax	Online Tax Calculator	Available : 24 X 7Changes updated :within 24hours
Help in return preparation	Online Return Preparation Software for annual income tax returns. Online Return preparation utility for TDS returns along with Return validation utility.	Available : 24 X 7 Changes updated within 24 hours Instant acknowledgement
Help in payment of taxes	Free downloadable software for printing of personalized challans, with PAN or TAN and its barcode; Online facility for printing personalized challans, with PAN or TAN and its barcode;Tax can be paid online through select banks if the taxpayerhas 'netbanking' facility.	Available : 24 X 7 Changes updated within 24 hours Instant acknowledgement
Taxpayer Identification Numbers : PAN and TAN	Online Application	Available : 24 X 7Changes updated: within 24 hoursPAN card/ TAN dispatched within 10 working days
	Tatkal - Online application with payment of fee through credit card	Available : 24 X 7 Changes updated : within 24 hours PAN / TAN communicated to the applicant by email within 5 working days
	Website and Aaykar Sampark Kendra (ASK) based tracking of status of application of PAN/TAN	Available : 24 X 7 on web Available : 09:30 AM to 06:00PM through ASK Changes updated : within 24 hours
	Website and Aaykar Sampark Kendra (ASK) based Verification of PAN/TAN	Available : 24 X 7 on web Available : 09:30 AM to 06:00PM through ASK Changes updated : within 24 hours

Know Your TAN	TAN can be searched on the basis of category of deductors/State/Name	Available: 24 X 7 Time taken in results: less than one minuteChanges updated: Every 6 hours
	Online facility for printing personalized Challans 280/281/282 and 283 challan with TAN/PAN and name on it.	Available: 24 x 7 Time taken in results: less than one minute Changes updated: Every 6 hours with PAN database.
PAN Query In Batch Mode	Free downloadable software for printing of personalized challans, with PAN/TAN and its barcode.	Available: 24 x 7 Time taken in results: Depending on the number of PANs provided in a file. 2 to 5 min.
	Organizations like banks or other government agencies using PAN can verify the PAN submitted to them by third parties in bulk mode by givingmany PANs in one file. The result of the query is validity of the PAN, name of the PAN holder, date of birth and address.	Available: 24 x 7 Time taken in results: Depending on the number of PANs provided in a file. 2 to 5 min.Changes updated: Every six hours with the PAN database.
Registration of e-intermediaries	Organizations desirous of functioning as e-intermediaries for e-filing of returns can register be set. through the Registrar, M/s National Securities Depository Ltd.	Involves passing of data connectivity test by the applicants. No time frame can be set.
E-Filing of Returns	Corporate assessees have to file their returns compulsorilyonline w.e.f 24-7-2006	Available: 24X7314834 corporate returns were e-filed upto 31.12.06.
	Simplifying and reducing the interface between taxpayer and the Department at the stage of filing of return of income. E-filing through Authorized Intermediary Direct E-filing under Digital SignatureDirect filing of Annexure-less forms such as 2F without -digital Signature	Available
Deductor/ Deductee	Online information on Tax laws, rules, circulars notifications etc;Procedures for PAN, TAN e-TDS returns. Directory of TIN facilitation Centers.	Available: 24 x 7 Changes updated: within 24 hours
Challan Status Enquiry	Enables the taxpayers to check if the tax paid is properly accounted for in their name.	Available: 24 x 7 Changes updated: within 24 hours
Online Filing of Grievance and their Redressal	Under this assessees can file(certain structured grievances online	Available: 24 x 7
Tracing the Status of Return and Refunds Online	Logging through ones Acknowledgement Number the status of the Refund can be obtained online in the networked cities.	Available: 24 x 7
AIR filer information	Online information on Tax Laws, rules, notifications, forms, data structure, etc.	Available: 24 x 7 Changes updated within 24 Hrs.
Online AIR return filing	Online AIR return filing facility	Available: 24 x 7

Table 3.48		
S.No.	**Activity**	**Brief Account**
Details of Completed Projects:		
1.	Online filing of Central Excise returns	To enable the taxpayer to file their Central Excise returns with CBEC over the Internet.
2.	Online filing of Service Tax returns	To enable the taxpayer to file their Service Tax returns over the Internet
3.	Electronic credit of Drawback	To enable the taxpayer to receive electronic credit of the amount due directly into his account with the designated bank.
4.	Dissemination of information relating to the indirect taxes through web. The website cbec.gov.in is functional.	To enable the taxpayers to obtain up to date information relating to Customs, Central Excise & Service Tax laws, forms, etc through internet.
5.	IEC status with ICEGATE	To enable the taxpayer to ascertain on the Internet whether his IEC (Importer/Exporter Code) issued by DGFT has been sent to ICEGATE.
6.	Online registration with ICEGATE	To enable the taxpayer to register online for transacting electronically with the department.
7.	Online filing of Customs documents	To enable taxpayers to file their Customs documents over the Internet. During 2005-06, 93 per cent of the import documents and 95 per cent of the export documentation were processed electronically at 34 automated locations. About 5.4 million documents were handled on EDI in ICES locations during 2005-06 out of which about 3 million documents were filed through ICEGATE.
8.	Web Tracking of status of Customs documents	To enable the taxpayers to ascertain status of their Customs documents. On the website www.icegate.gov.in
9.	Helpline facility for ICEGATE transactions	To provide a Helpline for problems faced by taxpayers in transacting with the department through ICEGATE. The ICEGATE Helpdesk is functional round the clock.
Details of On-going Projects		
1.	Digital Signature Certificates in Customs Clearance	CBEC has acquired a five years licence to act as Certifying Authority for implementation of Digital Signature Certificates in Customs clearance to ensure authenticity of transactions over Internet. The process of Issuing digital certificates has started
2.	Automation of Central Excise and Service Tax(ACES)	The project aims at developing a workflow application to automate the entire business process relating to Central Excise and Service tax that includes registration, filing and processing of returns, claims, intimation etc., filing and processing of excise related export documents, automated monitoring of dispute resolution, audit etc.. The software development is nearly complete and the work relating to user acceptance test is in progress.
3	Electronic Accounting System in Excise & Service Tax (EASIEST)	Reconciling the duty paid in the banks with the data captured from the Central Excise and Service Tax returns through electronic accounting.. Pilot is under implementation at Chennai. EASIEST has been extended to Delhi, Bangalore, Mumbai, Northern Zone (Western U.P., Rajasthan and Punjab), Western Zone (Gujarat) and Southern Zone also. National roll out on pilot basis has been fixed on February 1, 2007.
4.	Augmentation of Computer infrastructure	To set up an All India Wide Area Network linking 20,000

	within the department	users in 590 buildings in 245 cities to the National data centre, Data Replication and DR site. This would link CBEC officers with the national data centre and disaster recovery site. Project has alreadybeen started and will be implemented in phased manner by March 2007. To provide computing , data storage, system security infrastructure , central Facilities management and related functionalities to all departmental and external users accessing the CBEC system. The project is expected to be completed by 2007-08. To provide PCs / terminals to all CBEC users with access to the central computing facility in a secured manner. The project is expected to be completed by 2007-08. CBEC's Data Warehouse : CBEC's data Warehouse would give the senior management in CBEC and the ministry a consolidated national perspective of all indirect tax data (using PAN based identifiers) for informed policy making & decision support; To provide a single source of clean and consistent indirect tax data for all purposes. To provide Web -enabled access to all users with customizing capability built in. Bringing in data from new applications like APIS & Courier Automation and external sources. The project is expected to be completed by 2007-08.
5	e-payment of Customs duties	E-payment of Customs Duties has been introduced in three major Custom Houses viz Delhi Air Cargo, ICD Tuglakabad and ICD Patparganj with four banks namely SBI, UBI, Corporation Bank and Punjab National Bank. The facility will be implemented in other locations after successful completion at these sites.
6.	e-payment of Central Excise duties & Service Tax	While e-payment facility for Central Excise & Service Tax had been made available since 2005, the same has been made mandatory for assessees all over India paying Central Excise duty & Service Tax more than 50 Lakhs per annum
7.	Automated Clearance of Courier Consignments	The project aims at bringing clearance operations for express consignments in line with international standards and WCO guidelines. Detailed design of various modules have been worked out. System Requirement Study finalized. Data elements relating to all courier related forms were finalized. Certain amendments in the existing Courier Regulations may be necessary and the same is being taken up with CBEC.
8.	Advance Passenger Information System (APIS)	The project aims at passenger facilitation coupled with more effective control on passenger movement at International Airports. This is being developed in coordination with the Ministry of Home Affairs. Consultations in progress so as to synergize passenger related information to be filed by the airlines. The system when put in operation is likely to benefit large numbers of passengers in Customs / immigration clearance.
9.	Large Tax Payer Units (LTU)	Large Tax Payer Units are being set up at various centres in the country in order to provide a Single Window facilitation for Large Tax Payer in their interaction with both Central Excise, Service Tax and Income Tax. This office is engaged in setting up of a portal in order to facilitate Single Window Remote Access to both Departments and facilitate both electronic transactions and tracking facility to eligible Tax Payers.

Directorate involving more that Rs.10,00,000/- or equivalent in foreign currency.

WINDOWS – NT Based LAN

Apart from the above LAN, we have in our office 11 Personal Computers provided to all the senior officers. The system has also been inter-connected through a Windows-NT LAN and a Proxy Server of this Network is kept in the Computer Room. This system is loaded with MS Office profession and is being used for all official work. Since Internet facility is available on all these systems through the RF link provided by the NIC, the facility of E-mail is being availed for official communication.

All Zonal offices and sub-zonal offices have been equipped with the Computers. These computers are being used for word processing, data and also helping in Inter-zonal and Inter-departmental communications through E-mail. The Internet is being utilized for development of information and intelligence in our office. The computers have proved very useful and effective in the preparation of budget and statistical data in all the offices of Enforcement Directorate.

Proposed Computerization and Database Development

The Directorate has submitted a comprehensive computerization plan to Ministry inter alia containing proposal to set up Main Computer Centre for collecting, analyzing and disseminating data/intelligence. The central server will also have connectivity with data base network of other law enforcement and regulatory agencies like RBI, Narcotics control Bureau, CEIB,CPV(MEA), SEBI, Customs, Income Tax, State Police Departments., CBI, Polnet, NCRB & FIU. It is also proposed to fully computerize and network through Local Area Network(LAN) of all Zonal/Sub-zonal offices and connect them to the Central Server(Hqrs.) through Wide Area Network(WAN) through NIC/NICSI.

Website Development

The Enforcement Directorate has a web page under the head "Preventive Agencies fighting economic offences" under the main web-site of Deptt. of Revenue, Ministry of Finance which includes contact information of all the offices of Enforcement Directorate as well as the detailed information about the Foreign Exchange Management Act, 1999 along with the rules and regulations made there under. This web page has been developed for us by the NIC. The website of the Directorate is going to be launched shortly incorporating details regarding FEMA alongwith rules/regulations and orders as well as regarding PMLA alongwith rules made thereunder.

Chief Controller, Govt. Opium & Alkaloid Factories

The Organisation of Chief Controller of Factories is equipped with computers and is connected through Internet and have individual office wise email addresses to facilitate e-governance. Further, from the year 2003-04, the opium sampling was handled by way of computers and challans are sent on email to District Opium Officers. During current upgradation, a larger computer network is envisaged at the two production works, particularly for HRD & labour mangement issues. During the current financial year, CCF office has launched its own website. Central Bureau of Narcotics

Initiatives have been taken to introduce the Electronic Smart Card Project with the objective to computerize the data of all the licit poppy cultivation activities right from the measurement of poppy fields, test measurements, uprooting of damaged poppy crop, collection of opium and payment to the cultivators. The electronic Smart Card of the poppy cultivator will have all this cultivation data besides personal information of the cultivator. Once the project is completed , the cultivators will be able to access their personal cultivation data. The Smart card Project will also enhance the monitoring and supervisory capabilities of the Department . Pilot project involving use of CCTVs at weightment centers was successfully carried out.

Computers have been installed in almost all sections and have been interconnected through a Network. All urgent reports or replies to the references received from the Ministry are forwarded to the Ministry of Finance, New Delhi through e-mail as far as possible.

The CBN website has been updated and all the application forms for issue of export/ import authorization for export/ import of psychotropic substances/ precursor chemicals and controlled substances can be down load from the CBN website : *www.cbn.nic.in*

Authority for Advance Rulings (Customs & Central Excise)

Website of the Authority, i.e. www.cbec.gov.in/cae/aar/aar.htm was also launched during this period. Statutory provisions, rules and regulations relating to Authority along with FAQs were uploaded for the information and awareness of interested persons/parties.

The office of the Authority is fully equipped with computers and internet facility. Full details relating to the Authority's functioning are available on the Authority's web site- www.cbec.gov.in/cae/aar.htm . Trade, industry, applicants and all persons in general have access to the information about this Authority on the internet. This Authority has an interface with the trade and industry and applicants in as much as all queries received from public, on e-mail, are promptly replied via e-mail.

Financial Intelligence Unit-India (FIU-IND)

Website of FIU-IND

FIU-IND has developed and hosted its website at www.fiuindia.gov.in. The website contains information on the Prevention of Money Laundering Act, 2002, obligation of reporting entities, scheduled offences, notifications and publications with appropriate links between related sections. Information about related acts, related sites, downloads, Frequently Asked Questions (FAQs) and definitions have been included to make it a comprehensive reference site on all matters related to money laundering. The website is periodically updated.

Project FIN net

FIU-IND has initiated Project FINnet – Financial Intelligence Network, with the objective to “adopt industry best practices and appropriate technology to collect, analyze and disseminate valuable financial information for combating money laundering and related crimes”. The project would consist of two phases i.e., Phase I-Preparation of the Consultancy Report and Phase II-Implementation of the Consultancy Report. FIU-IND has already received bids from IT companies who have been selected on the basis of their Expression of Interest ‘EoI’, profile. The technical committee of officers constituted with the approval of the Competent Authority is in the process of examining the bids to hire Consultant for the Project FINnet.

Authority for Advance Rulings (Income tax)

A lot of interest was generated in the website of AAR (IT) , namely, www.aar.gov.in., amongst the participants who were keen to have ready access to the rulings of the AAR in India which involve issues common to most of the countries with whom India is having Double Taxation Avoidance Agreements.

The official website of the Ministry which was inaugurated last year has not only been kept up to date but publicised in various countries through the brochures on AAR which was distributed all the conferences mentioned above. This has evoked lot of interest in the system of AAR as well as the rulings on interpretation of DTAA.

23. Grievances Redressal Machinery

Revenue Headquarters

Director (Coordination) has been nominated as the Grievances Officer for redressal of public/staff grievances pertaining to the Revenue Headquarters. This information has been widely circulated among all officers/sections in the Department and to the Department of Administrative Reforms & Public Grievances. The grievances relating to SCs/STs and Other Backward Classes are dealt with on priority. The Complaint Cell for Women has been constituted and has been attending to expeditious redressal of grievances of the women employees relating to sexual harassment in workplaces. Efforts are made to attend to all grievances received on priority.

Central Board of Direct Taxes

The Income-tax Department has a 3 tier Grievance redressal machinery as below:

(i) Central Grievance Cell under Chairman, Central Board of Direct Taxes. The Cell functions directly under an officer of the rank of a Director to the Government of India.

(ii) Regional Grievance Cell under each Chief Commissioner/Director General of Income-tax in places like Kolkata and Mumbai where there is more than one Chief Commissioner, the Regional Grievance Cell functions under the Chief Commissioner-II.

(iii) Where no Chief Commissioner of Director General is posted, Grievance Cell functions under the Commissioner of Income-tax.

Grievance petitions may be made on plain paper application to the Grievance Cell functioning under the concerned Commissioner or by directly approaching the concerned officer to redress the grievances, mentioning the grievance in brief to the Grievance Cell functioning under the concerned Commissioner. If the grievance is not redressed even after a month of making the application as indicated the applicant may address the grievance to the Regional Grievance Cell functioning under the concerned Chief Commissioner of Income-tax. Nodal Officers have been placed in Charge of these Cells. Besides, there are facilitation counters to receive grievance petitions and to assist the public. If the grievance is not redressed by the Regional Grievance Cell within 2 months, an application may be sent to the Central Grievance Cell functioning under the Chairman, Central Board of Direct Taxes. The Central Grievance Cell is handled by the Director (Hqrs), CBDT. The applicant should give his name, address and PA Number so that the Grievance Cell can make further communication with him, if required.

The details of the number of grievances disposed by the Central Grievance Cell are given in Table 3.49.

Help Centre Programme for FY 2006-07

The Help Centre Programme for small assessees was conducted for the first time on pilot basis in F.Y. 2005-06. The programme is being repeated in the F.Y. 2006-07 after incorporating changes based on feed back received in F.Y. 2005-06. The PUBLIC-PRIVATE PARTNERSHIP model is being followed. The Government is partnering with representative trade bodies, professional associations and clubs and other segments of civil society in a process of public

Table 3.49

Financial Year	No. of application received	Disposed off
2004-05	876	625
2005-06	902	712
2006-07 (till 21/12/06	875	695

Table 3.50	
No. of Help Centres	127
No. of Cities/Towns	89
Duration of programme	1.7.2005 to 30.9.2005 and last week of October 2005.
Category of assessees covered	Small business taxpayers
Services provided	Helping in matters related to filling up of Return forms/Challans, resolving PAN/jurisdiction related queries etc. and receipt of PAN applications

Table 3.51	
No. of Help Centres	336
No. of Cities/Towns	292
Period For Which Help Centres Have Functioned/Will Function.	15.6.2006 to 15.8.2006 and 01.3.2007 to 31.3.2007

involvement in governmental processes.

CCsIT have undertaken a review of the effectiveness of the locations of each Help Centres set up in F.Y. 2005-06 in achieving its objectives, after taking feedback from field officials/trade bodies etc. Logistics have been tied up with the private participants well on time, so that they too can gear up in advance. This is necessary not only to optimize performance of the Help Centres, but also to enable adequate advance publicity regarding the locations of the Help Centre.

Broad guidelines for running of the programme in F.Y.2006-07 have been formulated by the CBDT and circulated to the field formations, based on the reported experience of running of the Help centres and suggestions to improve the same. In F.Y. 2005-06, Help Centres focused on small business tax payers. In F.Y. 2006-07, the Help Centres will also assist salaried employees and pensioners.

Continuous monitoring of the performance on the Help Centres is being undertaken for meeting the expectations of the public better.

For the first time in 2006-07, structured Training Programmes have been undertaken for Officers and officials, who would be manning the Help Centres along with the private participants to specifically train them to handle the visitors to Help Centres and to sensitize them to their role as service providers.

A multi-media publicity campaign has been launched through television, newspapers (both vernacular and English), posters, banner, leaflets, seminars, contact programmes etc. The advertisements also depict the addresses of the local Help Centres.

Tax Return Preparers Scheme

Section 139B was introduced in the Income-tax Act, 1961 by the Finance Bill, 2006, Sec 139B provides for creation of Tax Return Preparers (TRPs), by issue of a notification. In pursuance of this amendment, the Tax Return Preparers Scheme was notified in November, 2006.

Applications were invited from prospective candidates from by issue of nation-wide advertisements for the enrollment test. The last date of application was 30th November 2006. A dedicated Help Desk and a web-site(www.trpscheme.com) was set up to cater to inquiries from prospective candidates and the general public. 90158 applications were received. The web-site has received 116 lakh hits.

Examinations were conducted at 100 centres in 80 towns and cities all over the country on 24.12.06. The results are expected on 05.01.07.

During the Financial year 2006-07, the scheme is being launched on a pilot basis to train 5000 TRPS and to issue certification to successful candidates in February 2007. Training will be conducted by NIIT, who are market leaders in this field. The trained Tax Return Preparers are expected to be certified by mid-February 2007. A complete appraisal of the Scheme, which was conducted as a pilot project in 2006-07, will be undertaken and a decision to extend it further will be taken.

The Tax Return Preparers will assist small and medium individual and HUF taxpayers to prepare and furnish their returns, but will not deal with cases involving complexity, such as cases involving statutory audit.

It will reduce the cost of compliance for small and marginal taxpayers and encourage them to comply with tax laws and also enable self-employment opportunities to unemployed or partially employed graduates all over the country. However, the Scheme does not provide for employment in the Government.

A Writ Petition has been filed by one Shri K.K.Gupta, Chartered Accountant before the Delhi High Court, seeking quashing of the Scheme. The CBDT has filed an Affidavit in reply. The hearing will be conducted in the High Court in February 07.

Replies were Tabled in both the Lok Sabha and Rajya Sabha by the Hon'ble Finance Minister in response to starred and unstarred questions on this Scheme.

Central Board of Excise & Customs

The public grievances redressal Machinery has been set up in the Central Board of Excise & Customs (CBEC) to deal with public and staff grievances and functions under the supervision of the Director (Admn) in the CBEC, who has been nominated as the Grievances Officer. The CBEC and its field formations which comprise Central Excise & Customs Commissionerate all over the country have regular interface with a wide cross-section of the public namely, passengers at the international airports, importers exporters, Central Excise assesses and Service Tax Assesses. Representations/ complaints to the Board and its field officer primarily emanate from the aforesaid categories of the public as also from the staff and officers of the Department. The Board has an elaborate system of dealing with such complaints/ representations. At the Committee level, there is a Public Grievances Committee, which has been directed to meet regularly to dispose specific representations from the trade. All the Executive Commissioners have been asked to hold regular Open House meeting with the representatives of the trade to discuss issues of mutual interest and utilize this forum to pursue matters of common interest with the Board for early solution. The Minutes of such meeting are required to be sent to the Board for monitoring the functioning of such Committees.

Further, each Executive Commissioner has nominated as Public Grievances Officer in the Committee as well as in the lower filed formations to attend to any grievances from the trade. As provided in the Citizen's Charter, the Committees have been advised to acknowledge letters/representations from the trade and ensure that they are replied to promptly. The supervisory officers have to remain available to meet the representatives of the trade on working days and look into the difficulties experienced by them.

The appellate machinery which primarily consists of a large number of commissioners (Appeals) ensures quick disposal of appeals filed by the trade against orders passed by the adjudicating authorities. The number of Commissioners (Appeals) has now been substantially increased as part of the Cadre Restructuring exercise in order to ensure speedy disposal of appeals. The Directorate of Public and Public Relations also receives grievances through e.mail. These are acknowledged and action is taken on these grievances.

Competent Authorities (SAFEMFOA & NDPSA)

There is an internal mechanism in place for dealing with grievances. Any grievance relating to orders passed are taken up with the Appellate Tribunal for Forfeited Property.

Directorate of Enforcement

Grievances officers have been nominated at Headquarter, Zonal / Sub-Zonal Offices of the Directorate for redressal of public / staff grievances and prompt action is taken to redress their grievances.

Authority for Advance Rulings (Customs & Central Excise)

It is a facilitating body for foreign investors. A separate grievances redressal machinery is not possible in view of skeleton staff strength. However, Senior Officer of the Authority are always available for redressal of any grievance.

Central Bureau of Narcotics

All the complaints of cultivators and other members of public received in Central Bureau of Narcotics are being enquired into promptly and further action is taken as per the findings of the enquiry. The Vigilance/Confidential sections in Central Bureau of Narcotics, Headquarters, Gwalior and the offices of the Deputy Narcotics Commissioners at Neemuch, Kota and Lucknow attend to all grievances of public which involve complaint against officers. The senior officers of CBN also attend to the grievances of the staff promptly by holding regular meetings with associations and field officers.

Chief Controller of Factories

Public Grievances are dealt with promptly. The labour grievances are also dealt with expeditiously and the relations between the Management & workers during the period were harmonious and cordial.

24. Development of North Eastern Region

The total number of proposal of N.E. region which has been sanctioned by the Board during F.Y. 2006-07 up to December, 2006 is 16 and the total amount sanctioned is Rs.10,278,353/. A list of all the proposals is given as below at Table 3.52. However, the list does not include the proposals sanctioned by the HODs i.e. Commissioners of Income Tax/ Chief Commissioner of Income Tax of the region within their Enhanced Delegation of Financial Powers.

State Taxes Section

The Department is providing technical and financial support to the North Eastern States and Sikkim in taking up VAT computerization, which is a very critical requirement for successful implementation of VAT. In fact, the DG, Systems, CBEC is implementing a Turnkey Project, through TCS, for VAT computerization of 5 North Eastern States (other than Assam and Meghalaya who have undertaken VAT computerisation on their own) and another Project, through NIC, for VAT computerisation in Sikkim. The total amount sanctioned for these Projects is Rs. 17.64 crore [i.e., Initial sanction of Rs. 12.50 crore plus additional sanction of Rs. 2 crore plus AMC for 2006-07 Rs. 3.14 crore]. The total expenditure so far is Rs. 12.30 crore. The initial phase of project implementation has been completed and now, efforts are on for bringing about further improvement/ upgradation.

Central Board of Excise and Customs

This office acted as the Nodal point for the implementation of VAT Computerization project in the North eastern States of Arunachal Pradesh, Mizoram, Meghalaya, Tripura, Nagaland and Sikkim. The projects involved are :

1. Creating a Central Data Centre at Guwahati for the North eastern states and one at Gangtok for Sikkim.
2. Installing computer system at 72 locations in the North eastern states and connecting them to the Guwahati Data center.
3. Installing computer system at 6 locations in Sikkim and connecting them to the Gangtok Data center.
4. Installing applications SW at the Data centre.
5. Starting the Computerized Vat system.

Apart from 10 of the remotest locations where the State Authorities are yet to hand over ready sites, the task has been accomplished.

Currently the project is in maintenance phase and the plan for a Disaster Recovery site (hot backup) and a full blown interoperability module are in advanced stages of implementation.

25. Gender Budgeting/ Empowerment Of Women

Central Board of Excise & Customs

The Directorate of Logistics has intimated that though they do not directly involve in regards to initiatives relating to Gender Budgeting and Empowerment of Women. Even then an amount of Rs.31, 75,000/- were disbursed in 31 cases by way of granting financial assistance to the family of the employees who passes away during the year. CBEC also recommended medical assistance to the weaker section of the employees of Rs.37,08,453/- in 141 cases thus, the total financial Assistance given to the family of the employees/ weaker section employees comes as Rs.68,83.453/-.

As per Supreme Court and National Commission for Women's Guidelines, directions have been issued to all offices of field formations under CBEC to constitute a complaint committee on Sexual Harassment. Compliance report in this regard from most of the Commissionerates has since been received.

Central Board of Direct Taxes

(i) Under the Income-tax Act, 1961, exemption limit is Rs. 1,35,000/- for a woman resident in India, who is below the age of 65 years, as against the general exemption limit of Rs. 1,00,000/-. In case of all senior citizens (including women), resident in India, who are of the age of sixty-five years or more, such exemption limit is Rs. 1,85,000/-.

(ii) Income of charitable -trusts or institutions applying or accumulating their income for charitable purposes, including welfare of the disabled, SCs, STs and women and weaker sections of the society is exempt, subject to the fulfillment of certain conditions [Sections 10(23C), 11 and 12].

(iii) The RTIs (Regional Training Institutes) and MSTUs (Ministerial Staff Training Units) have conducted special course on gender sensitization to create awareness among the participants on various gender issues and on women empowerment. The MSTUs have also conducted special courses for women employees.The Academy as well as some of the RTIs have been conducting seminars to sensitize the officers regarding various gender issues with a view to create harmonious and congenial environment at work place. This also helps in developing leadership in the department for handling the issues involved in management of gender diversity sensitively and effectively. A three-day seminar on Gender sensitization was conducted by NADT with a view to sensitize the middle and senior level Officers of the Income Tax department towards the various gender issues. Topics such as personal values, prejudices and biases, communication in work-place, sexual harassment at work-place, moving towards sensitive work culture, women empowerment, etc. were discussed in the seminar.

(iv) In consequence of the guidelines laid down by the Hon"ble Supreme Court in its judgment dated 13.08.1997 in the case of "Vishakha and others vs. State of Rajasthan", Complaints Committee have been set up at the headquarters of all Cadre Controlling Authorities (CCITs/DGITs) to prevent sexual harassment of women at the workplace.The formation of the said Complaints Committee have been done following the guidelines of the Hon'ble Supreme Court, so that a victim of such sexual harassment can come for redressal of her grievance. Such Complaints Committees are responsible for holding enquiries in cases of complaints of sexual harassment as per the guidelines prescribed by the Hon'ble Supreme Court. After examination of the complaint and giving opportunity of being heard to both the complainant and the accused, the Complaints Committee submit their recommendations to the concerned Cadre-Controlling Authority who is competent to make decision and take action in view of the comments of the Complaints Committee.

Female members have been opted as the Head of such Complains Committee. Assistance is also taken from the NGOs or the 3rd party representatives who participate in the proceedings of the Committee.

Chief Controller, Govt. Opium & Alkaloid Factories

With equal opportunity / status enjoyed by women in CCF Organisation, the senior level post of GM, Neemuch is headed by one woman. Gender bias/harassment is unheard off in this Organisation.

Table 3.52

File No.	CCIT	Station	Subject	Head	Amount	Sanction No.
DIT (Inf.)/ MR-42/ NER/2006	Guwahati	Dimapur	Special repairs of office-cum-quarters complex at Purana Bazar	4059	70,23,826	O/48/2006-07
DIT (Inf.)/ MR-66/ NER/2006	Guwahati	Nalbari	Providing corrugated fibre sheet roofing shed and internal and external finishing of I.T. Office at Nalbari	4059	2,78,074	O/83/2006-07
DIT (Inf.)/ MR-66/ NER/2006	Guwahati	Nalbari	Providing and fixing security fencing with barbed wire over existing wall at I.T. Campus at Nalbari	4059	1,07,978	O/84/2006-07
DIT (Inf.)/ MR-66/ NER/2006	Guwahati	Nalbari	Water proofing treatment, providing and fixing rain water pipes and c/o open surface drain of IT Office at Nalbari	4059	2,07,256	O/85/2006-07
DIT (inf.)/ MR-80/ NER/2006	Guwahati	Tezpur	Construction of guard wall with M.S. grill near main gate at I.T. Office at Tezpur	4059	30,850	O/102/2006-07
DIT (inf.)/ MR-80/ NER/2006	Guwahati	Tezpur	Repairs and maintenance of office building at ex-police line, Tezpur	4059	1,28,100	O/103/2006-07
DIT (inf.)/ MR-80/ NER/2006	Guwahati	Tezpur	Repairs and maintenance of Tax Recovery Office at Ganesghat	4059	57,600	O/104/2006-07
DIT (Inf.)/ MR-88/ NER/2006	Shillong	Dibrugarh	Special repair for office building at Dibrugarh	4059	1,24,800	O/100/2006-07
DIT (Inf.)/ MR-29/ NER/2005	Shillong	Shillong	C/o car/scooter shed for parking and making an additional gate for exit at I.T. office	4059	6,64,574	O/06/2006-07
DIT (Inf.)/ MR-29/ NER/2005	Shillong	Shillong	Repairs to the roof of 1st phase building at I.T. Office	4059	1,89,433	O/07/2006-07
DIT (Inf.)/ MR-29/ NER/2005	Shillong	Shillong	Renovation of toilets at 1st phase building at I.T. Office	4059	5,13,033	O/08/2006-07
DIT (Inf.)/ MR-90/ NER/2006	Shillong	Shillong	Maintenance of DG set at Aayakar Bhawan, Shillong	4059	2,25,212	O/99/2006-07

File No.	CCIT	Station	Subject	Head	Amount	Sanction No.
DIT (Inf.)/ MER-89/ NER/2006	Shillong	Silchar	Special repair of I.T. Office building at Silchar	4059	2,32,817	O/108/2006-07
DIT (Inf.)/ MR-84/ NER/2006	Guwahati	Guwahati	Fixing of grill gates at mumpty door of Type-I, II & III quarters at Bongaon, Guwahati	4216	54,000	R/36/2006-07
DIT (Inf.)/ MR-80/ NER/2006	Guwahati	Tezpur	Repair and maintenance of residential building at Tezpur	4216	4,40,800	R/37/2006-07
DIT (Inf.)/ CO-48/ NER/2004	Shillong	Agartala	C/o new block of existing office building	Admn. approval		AA/01/2006-07
TOTAL					**1,02,78,353**	

Central Bureau of Narcotics

The following measures have been undertaken in this regard:

- Sensitization of the employees towards needs of women.
- Recreational interactive sessions among the staff to have a spirit of camaraderie amongst working staff.
- Celebrating Women's Day on 8th March every year to create awareness, dignity, respect and courtesy towards women.
- Special watchdog committee to check sexual harassment and proper action.
- Sensitization of the work force by propelling attitudinal change in order to enhance the dignity of women, integrity, liberty, expression of faith and belief in tune with the Constitution of India.
- Appreciate mutuality of respect and courtesy by obviating of Us Versus Them.
- Sensitive to the family needs of the women in order to have a feel good personnel policy to enable women to carry out their official duties with their domestic chores.

26. Activities Undertaken for Disability Sector & Scs/Sts & Other Weaker Sections of Society

Revenue Headquarters

A special drive to fill up reserved vacancies for SCs/STs in direct recruitment quota as well as in promotion quota was conducted in the Department of Revenue (HQRs) and the subordinate offices under the administrative control of Revenue HQs.

Central Board of Excise & Customs

During the year 2005-06, on directions of DoP&T, 239 posts in Group 'B', 233 posts in group 'C' and 210 posts in group 'D' have been identified as backlog vacancies reserved for OBC. Request has been made to DOPM to send the Committee-wise/posts-wise bifurcation of these 682 posts to initiates recruitment process to fill up these posts.

Representations of SCs, STs & Physically disabled persons in the formation of CBEC by monitored by way of periodically return. Special attentions are being paid to sort out the grievances of SCs, STs and Physically disabled employees of these formations.

Central Board of Direct Taxes

(i) Income of charitable trusts or institutions applying or accumulating their income for charitable purposes, including welfare of the disabled, SCs, STs and women and weaker sections of the society is exempt, subject to the fulfilment of certain conditions [Sections 10(23C), 11 and 12].

(ii) Income accruing or arising to a member of a specified Scheduled Tribe, residing in any specified area, from any source in the said areas and dividend or interest from securities, is exempt [Section 10(26)].

(iii) Exemption is available to any income of a corporation established under a Central, State or Provincial Act or of a body/association/institution, wholly financed by the Government, for promoting the interests of the members of SCs/STs/Backward classes [Section 10(26B)].

(iv) Any income of a cooperative society, whose finances are provided by the Government or other cooperative societies formed for similar purposes and whose membership consists of such other cooperative societies, formed for promoting the interests of members of SCs/STs is exempt under the I.T.Act [Section 10(27)].

(v) Under section 80DD of Income-tax Act deduction of Rs. 50,000/- is available to a resident Individual/HUF where any expenditure has been incurred for the medical treatment of a dependant being person with disability. In case of severe disability, enhanced deduction of Rs. 75,000/- is available.

(vi) Under section 80DDB of Income-tax Act, deduction upto Rs. 40,000/- is available to a resident Individual/ HUF for any expenditure actually incurred on medical treatment of specified diseases and ailments. In the case of senior citizens, enhanced deduction of Rs. 60,000/- is available.

(vii) Under section 80U of Income-tax Act, deduction of Rs. 50,000/- is available to a resident individual being a person with disability. In case of severe disability, enhanced deduction of Rs. 75,000/- is available.

(viii) Regional Training Institute Chennai has conducted pre-examination coaching for SC/ST members of staff for appearing in the departmental exams. 58 persons were trained covering 15 training days. It has been decided that henceforth all the Regional Training Institutes would impart pre-examination coaching to SC/ST officials at the time of holding of departmental examinations at all levels.

Central Bureau of Narcotics

The reservation quota for SC/ST/OBC and persons with disabilities is maintained in the Central Bureau of Narcotics (CBN). Shri B.B. Gupta, Deputy Narcotics Commissioner has been nominated as Liaison Officer to look after the interest, representation and welfare of SC/ST/OBC employees of CBN. A complain committee has also been set up in CBN Hqrs, Gwalior to look after the complaints received from ST/SC/ OBC employees. However, no Complaint was received in 2006-07 till date and no separate budget was allocated to the above category employees, in respect of CBN.

Chief Controller of Factories

The CCF organization is strictly adhering to the prescribed Rules and regulations for the welfare and development of disabled, SCs, STs and other weaker sections. With an objective to initiate prompt action on grievances of such sections, a committee has been formed wherein members from such sections are inducted. Roster registers for this purpose are also being maintained.

27. Central Revenue Sports Board (CRSB)

The first meeting of the reconstituted CRSB was held under the chairmanship of Smt. Baljeet Matiyani, the then Member (Personnel), CBDT on 23.11.2006.

In this meeting the report of Executive Secretary for the year 2005-06 was considered and unanimously adopted. The annual Working Plan for the year 2006-07 and the Annual Budget Estimates of this year were also discussed and approved. Then, audited statement of accounts for the year 2005-06 was adopted. Budget Estimates for the current year was projected at Rs.50 lakhs as against the provision of Rs.45.50 lalhs in the year 2005-06. However, the grant sanctioned by the Government is Rs.34.25 lakhs only, and the same could not be enhanced. A request has been made to the Governing Body of Performance Award Fund of CBEC for an additional amount of Rs.10 lakhs.

As regards the conduction of various Sports and Cultural Meets, there has been a major change in scheduling of events in this year. Unlike the previous years when sub-zonal and zonal meets were completed by November and All India Meets by December, this time the calendar of events starts from 2nd week of January, 2007 and goes up to the beginning of March. A detailed chart showing events planned for this year is given in the below (Table 3.53).

Founders Day Celebration of CRSB would have normally been conducted on 4th of January but due to the fact that this year sports and cultural events were yet to start at that point of time, it was decided to postpone the same to March, 2007. A report on the various sports and cultural activities would be presented on the occasion of Founders Day.

Table 3.53: Provisional Calendar of Events for the year 2006-07					
No.	Name of Event	Last Year's Convenor	Proposed Convenor of the year	Proposed Venue	Probable Dates
1	CRBS Founder's Day	Chief Commissioner of Income Tax, Delhi	Chief Commissioner of Central Excise, Delhi	Delhi	4^{th} January, 2007
2	CRSB Invitation Badminton Tournament	Chief Commissioner of Central Excise, Lucknow	Chief Commissioner of Income Tax, Lucknow	Lucknow	19-20 Jan, 2007
3	CRSB Invitation TableTennis Tournament	Chief Commissioner of Income Tax, Ahmedabad	Chief Commissioner of Central Excise, Delhi	Delhi	19-20 Jan, 2007
4	All India Literary Workshop	Chief Commissioner of Income Tax, Chandigarh	Chief Commissioner of Central Excise, Kolkata	Kolkata	27-28 Jan, 2007
5	Sub Zonal/Zonal Cultural Meets		Exact Dates/ Convenors and Venues to be decided by the Zonal Committees		25 Jan, 2007 to 15 Feb, 2007
6	Sub Zonal/Zonal Sports Meets		Exact Datesl Convenors and Venues to be decided by the Zonal Committees		20 Jan, 2007 to 15 Feb, 2007
7	20th All India Cultural Meet	Chief Commissioner of Customs, Kolkata	Chief Commissioner of Income Tax, Pune	Pune	1 - 3 Feb, 2007
8	CRSB Invitation Lawn Tennis Tournament	Chief Commissioner of Income Tax, Chennai	Chief Commissioner of Central Excise, Hyderabad	Hyderabad	1 - 3 Feb, 2007
9	CRSB Invitation Golf Tournament	Chief Commissioner of Customs, Mumbai	Chief Commissioner of Income Tax, Mumbai	Mumbai	2 Feb, 2007
10	CRSB Invitation Cricket	Chief Commissioner of Central Excise, Bangalore	Chief Commissioner of Income Tax, Delhi	Delhi	3-6 Feb, 2007
11	CRSB Inter State Volleyball Tournment	Chief Commissioner of Income Tax, Kolkata	Chief Commissioner of Central Excise, Chandigarh	Chandigarh	13-15 Feb, 2007
12	All India Cultural Workshop	Chief Commissioner of Income Tax, Goa	Chief Commissioner of Central Excise, Chennai	Chennai	6-7 March, 2007
13	39th All India Central Revenue Sports Meet	Chief Commissioner of Income Tax, Jaipur	Chief Commissioner of Central Excise, Bangalore	Bangalore	6-8 March, 2007.

Chapter-IV

Department of Disinvestment

Functions and Organisational Structure

The Department of Disinvestment was set up vide Notification No. CD/551/99 dated 10th December, 1999. Vide Notification No. CD-442/2001 dated 6th September, 2001, the Department of Disinvestment was renamed as Ministry of Disinvestment. The Ministry of Disinvestment was converted into a Department under the Ministry of Finance vide Notification No. CD-160/2004 dated 27th May, 2004 and has been assigned the following work :

(a) All matters relating to disinvestment of Central Government equity from Central Public Sector Undertakings.

(b) Decisions on the recommendations of Disinvestment Commission on the modalities of disinvestment, including restructuring.

(c) Implementation of disinvestment decisions, including appointment of Advisors, pricing of Shares, and other terms and conditions of disinvestment.

(d) Disinvestment Commission.

(e) Central Public Sector Undertakings for purposes of disinvestment of Government equity only.

(f) Financial policy in regard to the utilization of the proceeds of disinvestment channelised into the National Investment Fund.

2. Consequent upon change in the policy of the Government the term of Disinvestment Commission was not extended further and it was wound up with effect from 31st October, 2004.

3. Dr. Sanjeev Mishra held the charge of the post of Secretary, Department of Disinvestment from 1st May, 2006 to 3rd December, 2006. Shri J.P. Singh held the charge of the post of Secretary, Department of Disinvestment from 4th December, 2006 to 31st January, 2007. Shri P.V. Bhide, assumed charge of the post of Secretary, Department of Disinvestment on 1st February, 2007.

4. Secretary, Department of Disinvestment is assisted by three Joint Secretaries. The post of Chief Executive Officer of NIF has also been sanctioned. The Department functions on the Desk Officer pattern and the disinvestment work is handled at the minimum level of Under Secretary.

Organisational Structure

The Organisational Structure is placed at Appendix – I

Policy on disinvestment

The National Common Minimum Programme (NCMP) adopted by the Government outlines the policy of the Government with respect to the Public Sector, including disinvestment of Government's equity in CPSEs. The salient features of NCMP in this regard are as follows: -

(a) The Government is committed to a strong and effective public sector whose social objectives are met by its commercial functioning. But for this, there is need for selectivity and a strategic focus. The Government is pledged to devolve full managerial and commercial autonomy to successful, profit-making companies operating in a competitive environment. Generally profit-making companies will not be privatized.

(b) All privatizations will be considered on a transparent and consultative case-by-case basis. The Government will retain existing "navratna" companies in the public sector while these companies raise resources from the capital market. While every effort will be made to modernize and restructure sick public sector companies and revive sick industry, chronically loss-making companies will either be sold-off, or closed, after all workers have got their legitimate dues and compensation. The Government will induct private industry to turn around companies that have potential for revival.

(c) The Government believes that privatization should increase competition, not decrease it. It will not support the emergence of any monopoly that only restricts competition. It also believes that there must be a direct link between privatization and social needs – like, for example, the use of privatization revenues for designated social sector schemes. Public sector companies and nationalized banks will be encouraged to enter the capital market to raise resources and offer new investment avenues to retail investors.

(d) On 6th July, 2006, the Government decided to keep all disinvestment decisions and proposals on hold, pending further review.

Proceeds from disinvestment

During 2006-07 no proceeds have accrued from disinvestment.

National Investment Fund

The Government has constituted NIF, into which the proceeds from disinvestment of Government equity in CPSEs would be channelised. NIF would be maintained outside the Consolidated Fund of India and would be professionally managed by selected Public Sector Mutual Funds to provide sustainable returns without depleting the corpus.

75 per cent of the annual income of NIF will be used to finance selected social sector schemes, which promote education, health and employment. The residual 25 per cent of the annual income of NIF will be used to meet the capital investment requirements of profitable and revivable CPSEs that yield adequate returns, in order to enlarge their capital base to finance expansion / diversification.

NIF will be operated by the selected Fund Managers under the 'discretionary mode' of the Portfolio Management Scheme, which is governed by SEBI guidelines. The work of NIF will be supervised by Chief Executive Officer (CEO) of NIF. A part time Advisory Board consisting of three members has also been constituted by the Government, to advise CEO of NIF, on various aspects of its functioning. Till date no funds have accrued to NIF.

Official Language Policy

The Department has a full-fledged Official Language Unit for handling all work relating to Official Language.

E-Governance

Personal computers with requisite software have been provided to all officers and personal assistants. Local Area Network is also functioning. Twenty-four hour internet connectivity is available to all officers through National Informatics Centre(NIC). E-mail ID numbers have also been issued to all officers. The Officers and staff have been receiving training in computer operations at NIC from time to time.

The website of the Department (www.divest.nic.in) contains data and information (bilingual) regarding policy, guidelines, procedures and progress relating to the disinvestment cases as also the manuals etc., to be provided under the Right to Information Act, 2005. The site is updated on continuous basis. All advertisements, when issued in newspapers, are simultaneously placed on the website. The publications of the Department are also available on the website.

Grievance redressal

The Joint Secretary in-charge of Administration has been nominated as Director of Public Grievances. However, the nature of the allocated business of the Department does not envisage much of an interface with the public at large.

Vigilance machinery

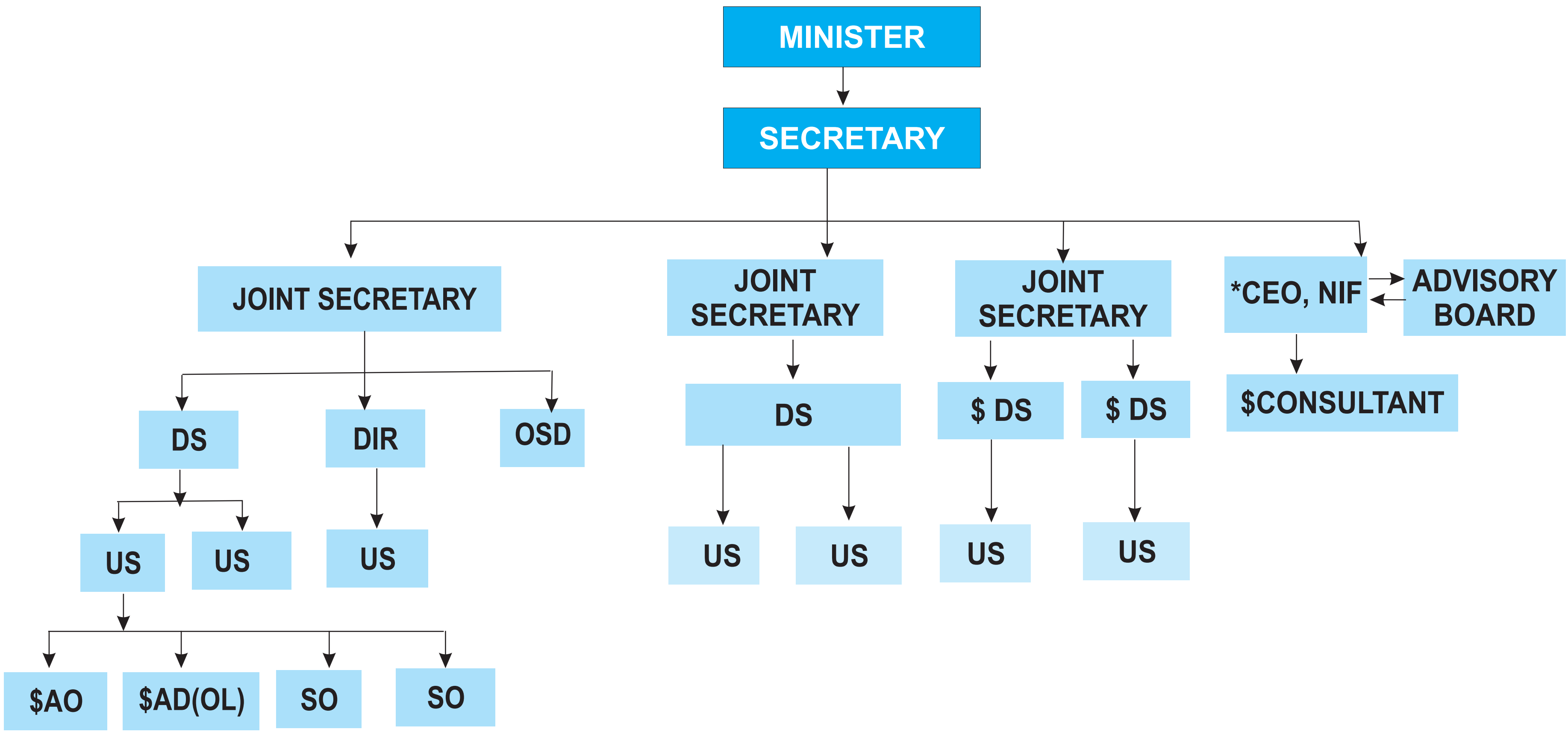
The initial examination and handling of disinvestment related matters is done at the level of Under Secretary/Deputy Secretary/Director. The Personnel, Administration, Security, Common services and Vigilance matters are dealt with by a multifunctional service section. The Administration Wing which includes vigilance is handled by one of the Joint Secretaries. Two out of three disciplinary cases initiated in the previous year are pending.

Implementation of Right to Information Act, 2005.

In pursuance to the Right to Information Act, 2005 the Department appointed Shri Anuj Gogia, Deputy Secretary as Central Public Information Officer (CPIO) on 1.8.2005. On completion of his deputation period he was repatriated to his parent cadre. Thereafter Shri S.K. Nag, Deputy Secretary was appointed as CPIO on 28.11.2006. Shri Arvind Mehta, Joint Secretary was appointed as the Appellate Authority on 1.8.2005. On completion of deputation period he was repatriated to his parent cadre. Thereafter Smt. Minakshi Ghose, Joint Secretary was appointed as Appellate Authority on 17.5.2006.

A manual indicating various aspects of the functioning of Department of Disinvestment has been posted on the Department's website. The information is also updated from time to time. 13 applications have been received so far in the Department under the RTI Act. The list of applications is placed at Appendix-II.

Organisational Setup of Department of Disinvestment



* Vacant: Charge being looked after by one of the Joint Secretaries.
$ Vacant.

Appendix-II

Details of the Application

Sl. No.	Name of Applicant	Date of Receipt	Date of dispatch of reply
1.	Shri Milap Choraria	21.12.2005	12.1.2006
2.	Shri Prasanto Chandra Sen	21.04.2006	26.04.2006
3.	Shri Gopal Chandra Jain	14.08.2006	17.08.2006
4.	Shri Ganshi Devraj Visaria	25.08.2006	05.09.2006
5.	Shri Ch. S. Ramaswamy	30.08.2006	21.9.2006
6.	Shri Deepak Kumar Singh	4.9.2006	7.9.2006
7.	Shri Sat Paul Harbanshal	4.10.2006	18.10.2006
8.	Shri S.K. Choudhary	5.10.2006	2.11.2006
9.	Shri Deepak Kumar Singh	11.10.2006	1.11.2006
10.	Indian School of Business	11.12.2006	21.12.2006
11.	Shri Dhimant Trivedi	27.11.2006	28.11.2006
12.	Shri Ajit Kumar	12.12.2006	9.1.2007
13.	Shri Vijay Singh	3.1.2007	23.1.2007

SUMMARY OF IMPORTANT AUDIT OBSERVATIONS OF THE COMPTROLLER & AUDITOR GENERAL OF INDIA ON THE WORKING OF THE MINISTRY OF FINANCE

Department of Economics Affairs

BANKING

Due to lack of proper verification of documents and inadequate monitoring, loans and interest totaling Rs.4.13 crore had become doubtful of recovery of PNB Housing Finance Limited. (Para 2.1.1)

INSURANCE

Incorrect estimation of taxable income and consequent short payment of advance income tax by General Insurance Corporation resulted in avoidable payment of interest to the tune of Rs.7.10 crore in respect of the financial year 2003-04. (Para 11.1.1)

National Insurance Company Limited lost premium of Rs.2.41 crore due to application of rates lower than tariff rates in respect of the Special Contingency Policies issued by the Company. (Para 11.2.1)

National Insurance Company Limited suffered a loss of Rs.1.54 crore due to charging incorrect premium under Group Personal Accident Policy issued to the Government of Haryana. (Para 11.2.2)

National Insurance Company Limited failed to collect 10 *per cent* surcharge towards terrorism risk amounting to Rs.1.22 crore in violation to TAC's directives. (Para 11.2.3)

New India Assurance Company Limited and National Insurance Company Limited issued group policies on undue and irregular terms and conditions to Golden Trust Financial Services, thereby, incurring loss of Rs.21.57 crore and Rs.5.59 crore respectively. (Para 11.3.1)

The New India Assurance Company

The Company suffered a loss of Rs.1.41 crore owing to incorrect rating of civil works contract under 'Erection All risk Insurance' tariff instead of 'Contractors All Risk Insurance' tariff. (Para 11.4.1)

The Company suffered a loss of premium of Rs.1.25 crore due to application of incorrect tariff rates meant for laying of water pipeline instead of oil/liquid petroleum pipelines tariff rates to the pipelines erected for transportation of liquid petroleum products. (Para 11.4.2)

Failure of the Company to execute the tenancy agreement and to accept the conditional vacation offered by the tenant resulted in avoidable expenditure of Rs.1.15 crore towards payment of rent on office accommodations hired by it in the same vicinity. (Para 11.4.3)

The Company suffered loss of Rs.70.86 lakh due to non-observance of tariff provisions. (Para11.4.4)

Failure on the part of the Company to settle a claim on non-standard basis due to a breach of warranty that was material to the loss resulted in undue benefit of Rs.61.59 lakh to the insured. (Para 11.4.5)

New India Assurance Company Limited and the Oriental Insurance Company Limited lost premium of Rs.12.26 crore on the insurance of the compressors and terminals of GAIL(India) Limited during April 2003 to March 2005. (Para 11.5.1)

Oriental Assurance Company

Oriental Insurance Company Limited issued a Group Mediclaim Policy to the employees of M/s Larsen and Toubro Limited allowing excess discount, which resulted in loss of premium of Rs.6.62 crore. (Para 11.6.1)

Oriental Insurance Company Limited suffered loss of revenue of Rs.1.66 crore due to allowing inadmissible discount and adopting erroneous rate. (Para 11.6.2)

Oriental Insurance Company Limited failed to apply the rates prescribed in tariff for pipelines meant for transportation of liquid petroleum products, resulting in loss of premium of Rs.61.00 lakh. (Para 11.6.3)

A claim for damage to a locomotive was settled by Oriental Insurance Company Limited under a policy, which was not in existence at the time of occurrence of the accident resulting in loss of Rs.51.00 lakh. (Para 11.6.4)

United India Insurance Company

Due to providing Tailor Made Group Mediclaim Policies in violation of its own guidelines the United India Insurance Company Limited suffered a loss of Rs.7.05 crore. (Para 11.7.1)

United India Insurance Company Limited issued and renewed tailor made group medicalim policies to cover the existing and retired employees of an Insured in violation of its guidelines, which resulted in a loss of Rs.5.53 crore. (Para 11.7.2)

Failure of United India Insurance Company Limited to charge appropriate group mediclaim premium led to under recovery of premium amounting to Rs.3.09 crore. (Para 11.7.3)

United India Insurance Company Limited suffered a loss of Rs.2.91 crore due to non-incorporation of premium adjustment clause in the agreement entered with Railways. (Para 11.7.4)

United India Insurance Company Limited failed to prefer reinsurance claims within the prescribed time under a scheme of settlement, which resulted in loss of Rs.49.00 lakh and non-recovery of Rs.62.00 lakh from a broker. (Para 11.7.5)

IT Audit of General Insurance System Software of National Insurance Company Limited

Under GENISYS software introduced in 2001, books were allowed to be kept open up to seven days after transactions. This is fraught with the risk as back dated entries can be made and policies with back date can also be generated. Some of the cheques entered in the "Inward Remittance Register" of Division XI were not accounted for in GENISYS and no policy was issued against such cheques. Cheques and cash were held for periods ranging from one day to 343 days in 20,488 cases. In 111 cases cheque date was later than the Scroll date. GENISYS software does not have appropriate validation controls to ensure cancellation of the policy when claims were disbursed on "Total Loss" basis leaving scope for further claim under the policy. In some cases effecting change in recovery of service tax at higher rate was delayed and the difference in collection amounted to Rs.1.24 crore up to 31May 2003. There was no check, either manually or through computer system to see whether all the Cover Notes were accounted for and policies issued.

(Para 25.1)

Irregular appointment of consultant

The Insurance Regulatory and Development Authority arbitrarily appointed a consultant in violation of the guidelines of the Central Government and the Central Vigilance Commission and made irregular payment of Rs. 21.75 lakh.

(Report No. 3 of 2006)

Department of Expenditure

Union Government Finances and Accounts: 2004-05

During 1985-2005, the average annual trend rate of growth of revenue receipt was not only comparatively lower than the growth of GDP, there was also a significant deceleration in the growth rates over the plans. The net revenue as per cent to GDP declined from an average of 12.71 *per cent* during 1992 97 (VIII Plan) to an average of 12.14 *per cent* during 2004 05. Explicit subsidies of the Union Government increased from an average of 13,469 crore during 1992-97 to Rs. 44339 crore during 2004-05.The borrowings were mainly used for debt servicing. On an average 95.12 *per cent* of the borrowings were used for either repayment of principal or the interest.

(Report No. 1 of 2006)

Deficient property management Improper planning and casual approach of the Income Tax Department (Department) in utilising land and buildings acquired for office and residential purposes resulted in idling of Rs.50.37 crore for periods ranging between 2 and 12 years and avoidable expenditure of Rs.11.55 crore on payment of interest/extension charges and rent of hired buildings. The Department also incurred additional expenditure of Rs.1.23 crore on the maintenance of unoccupied building between March 2003 and February 2005 and continued to incur expenditure of Rs.5.74 crore per annum on rent and maintenance of other hired and unoccupied buildings beyond February 2005.

(Report No. 2 of 2006)

Idling of investment due to improper planning

India Government Mint, Noida, constructed 96 staff quarters without properly assessing its housing need resulting in 58 quarters (60 *per cent*) remaining vacant and consequential idling of investment of Rs.2.29 crore. House rent allowance of Rs.43.51 lakh was paid to the staff for whom the quarters had been constructed and there was a loss of licence fee of Rs.5.63 lakh.

(Report No. 2 of 2006)

Department of Revenue

CENTRAL EXCISE

1. Excise duty on Inorganic and Organic Chemicals

Audit Observation:

(i) Absence of specific provision in new Section 4 relating to payment of excise duty on maximum price fixed under the law led to revenue being forgone to the extent of Rs.16 crore in one unit.

Ministry's Comments

Audit objection has not been admitted by the Ministry. In its comments, Ministry has stated that CESTAT, Chennai, in a similar case had rejected the departmental appeal. The CESTAT in that case had observed "*what was fixed by DPCO was maximum sale price and that too with a rider that the manufacturer of bulk drugs shall not sell the drugs at any price exceeding the maximum price so fixed. A consumer friendly policy of the Central Govt. was discernible from the provisions which are not intended to be handy for Central Excise authorities to tax the drug manufacturer in the way they proposed to do in this case*".

Audit Observation:

(ii) Absence of specific sub heading in chapter 28 led to loss of Rs.35.53 crore in four units alone. Irregular availment of cenvat credit resulted in revenue loss of Rs.98.72 crore.

Ministry's Comments

Observations of the Audit have not been accepted. The audit has also raised this issue in DAP No.209/2005-06, wherein the Ministry has not admitted the objection of classification of Calcium-di-phosphate (animal feed grade) under chapter 28.35 and the audit has been informed that the Board, vide Section 37B orders, dated 3.3.1997 had clarified that Di-calcium phosphate should be classified under sub heading 2835.00, CET. However, after Gujarat High Court quashed the impugned order of the Board and the CESTAT too decided the matter against the Department and the Civil Appeal filed by the Department in the Hon'ble Supreme Court was dismissed by the Apex Court, the Board ordered that the earlier instructions contained in 37B order, dated 3.3.1997 would no longer be valid and be treated as withdrawn.

2. Review on Delay in finalization of Demands

Audit Observation:

(i) In spite of incorporation of time limit in the statute with effect from 11 May 2001, 15251 cases involving central excise duty of Rs.8625.87 crore were pending adjudication as on 31 March, 2004. Increase was 13 per cent in terms of number and 51 per cent in terms of amount as compared to position on 31 March, 2001. In six test checked cases alone, an amount of Rs.153.01 crore was pending adjudication for want of administrative action. Cases numbering 829 involving central excise duty of Rs.1687.83 crore were pending adjudication for want of clarifications by the Board.

Ministry's Comments

The Ministry has taken up the issue of pendency of adjudication of cases on top priority and an Action Plan for expeditious adjudication of demands was drawn. Consequently, during the period 1.4.2005 to 1.4.2006, the overall pendency of duty demand cases was reduced by 31.71 per cent in terms of number of cases and 18.25 per cent in terms of revenue involved therein. Corresponding reduction in number of cases during the same period as mentioned above, in respect of cases involving duty of more than Rs. 1 crore pending over one year was 56 per cent and 61 per cent, respectively.

Action Plan for expeditious adjudication of demand cases has been initiated for the current financial year also. As part of the Action Plan, all cases pending as on 31.3.2006 have been targeted for disposal latest by 31.3.2007. During the first half of the current financial year, the pendency has been further reduced by 51 per cent in terms of number of cases and 61 per cent in terms of revenue involved.

This issue was also taken up by the Public Accounts Committee for detailed examination/oral evidence during 2006-07.

Audit Observation:

(ii) With almost half the amount involved in demand cases lying un-adjudicated well beyond one year and the provision of qualified time limit not deterring adjudicating officers from allowing older cases to linger, thee purpose of fixing time limit was not fully served. Adjudication officers were prone to postponing finalization of demands by taking recourse to "where it is possible to do so". Various measures initiated by the Government to speed up finalization of demand cases did not meet with full success largely due to lack of consistent monitoring and insufficient internal controls.

Ministry's Comments

Heavy pendency of adjudication cases involving Central Excise duty has been a matter of concern for the Board. Adjudication of demand cases has already been identified as one of the key result areas, and instructions to ensure expeditious adjudication of cases. As part of the exercise of review of the pendency of demand cases, the factors that generally lead to delays in adjudication proceedings have been identified and suitable remedial measure have been taken. An action plan as already mentioned above has been finalized, and accordingly, instructions have been issued to the field formations.

It is not correct to state that adjudication officers are prone to postponing finalization of demands by taking recourse to 'where it is possible to do so'. Adjudication is a quasi-judicial function and requires careful scrutiny of documents which at times are voluminous, and application of mind in a judicious manner after following the principles of natural justice. The quasi- judicial order are liable to be appealed against even upto the Supreme Court, and cannot be passed in a perfunctory and casual manner.

Special monitoring for expeditious adjudication of demands is being done through the Directorate of Inspection in respect of cases with the following parameters.

- Adjudication of cases for more than one year.
- Adjudication of cases involving duty of more than Rs. 1 crore.
- Adjudication of cases of more than 1 year and involving duty of more than Rs.1 crore

As part of the Action Plan for 2006-07, all demand cases pending for disposal as on 31-3-2006 are being kept under a tab for timely action.

SERVICE TAX

3. Service tax on Manpower Recruitment Agency Service and Security Agency Services

Audit Observation:

(i) Service tax of Rs.10.04 crore was evaded by 141 assessees in 20 commissionerates during the period when they did not file returns. Penalty and interest amounting to Rs.14.04 crore was also leviable. Short payment of Rs.43.44 crore inclusive of interest and penalty on account of suppression of taxable value by 289 assessees in 39 commissionerates was noticed.

Ministry's Comments

Monitoring for timely filing of returns and the necessary follow-up action is done by the jurisdictional Service Tax Officers. Registers are being maintained in the field formations for such monitoring. Penalty is only imposed in cases where defaulter is unable to explain the reasons for such delay or omission is of recurring nature. The reasonable delay is condoned under Section 80 of Finance Act, 1994.

Audit Observation:

(ii) Growth of revenue is directly linked with the growth of assessee base. Efforts made by the department to bring into net unregistered service providers and augment revenue being considered inadequate, attempt made by audit on a limited scale has disclosed the existence of a large number of unregistered service providers. Returns are main tools through which department was required to watch and ensure that service tax was paid by registered service providers regularly and without interruption. Lack of monitoring and follow up resulted in large scale evasion of service tax during the period when returns were not filed by them. There was also general propensity of the assesses to pay less tax than was due from them, largely due to the ineffective control mechanism and notion of 'voluntary compliance'.

Ministry's Comments

Substantial growth of assessee base and revenue in respect of Security Agencies and Man Power Recruitment Agencies has taken place by effective efforts made by the Department. Surveys were conducted to identify the non registered service providers and registrations issued to them. In cases of non filing of returns and late filling of returns, action was initiated by way of writing letters/reminders to them. In certain cases, Show Cause Notices were issued. Returns are fed into the automated data base and reports are generated regarding registrants not filing returns. The assesses were reminded through telephone messages, letters, and e-mail, to file returns. Open house meetings and seminars were also conducted to educate the new service tax providers regarding the procedures to be followed by them. Precautions were also taken while conducting surveys that no harassment is caused to service providers. Due to the above action growth in number of assesses and revenue has been visible.

4. CENTRAL EXCISE & SERVICE TAX

Ministry's Comments

While some objections raised by the audit have been accepted by the Ministry, objections in some cases have not been admitted and Ministry has conveyed to the audit the grounds/ reasoning for disagreement. Wherever, objections are admitted, necessary remedial measures, including initiation of penal proceedings wherever considered appropriate, have been taken. In some cases, Customs, Excise and Service Tax Appellate Tribunal (CESTAT) and various High Courts and the Supreme Court have taken contrary view than that by the audit.

Department of Disinvestment

(a) Pertaining to Disinvestment Transaction

(i) The Comptroller and Auditor General in Report No.2 of 2005 has made observations in regard to the disinvestment in two hotel units of Hotel Corporation of India(HCI). The summary of the observations is as under:

" **Sale of HCI Hotels in Mumbai:** Sale transactions of two hotels, Juhu Centaur and Airport Centaur were finalized on the basis of single bids without the benefit of competition. Assumptions made during valuation of the properties and fixation of reserve price of Airport Centaur were not consistent with the practice followed by the Ministry in other cases. Repeated extensions and relaxations were allowed to the bidder of Juhu Centaur to facilitate the sale."

In the light of observations made by C&AG relating to sale transactions of Hotel Juhu Centaur, Mumbai and Hotel Airport Centaur, Mumbai, Government has decided to institute a CBI enquiry. The decision of the Government has been conveyed to the CBI in July, 2005. The report of CBI is still awaited.

(ii) C&AG in Report No.17 of 2006 on "Performance Audit of Disinvestment of Government Shareholding in Selected Public Sector Undertakings during 1999-2003" has made observations on disinvestment through strategic sale of 9 Public Sector Undertakings, viz. Bharat Aluminium Company Limited, Modern Food Industries Limited, Computer Maintenance Corporation, Hindustan Teleprinter Ltd., IBP Company Limited, Videsh Sanchar Nigam Limited, Hindustan Zinc Limited, Paradeep Phosphates Limited & Indian Petrochemicals Corporation Limited. The report was laid in Parliament on 25th August, 2006. The Public Accounts Committee has selected this report for detailed examination during 2006-07. The Action Taken Note in respect of the recommendations and observations of the Audit contained in the report has been forwarded to Lok Sabha Secretariat (PAC Branch) on 11th December, 2006.

(b) Pertaining to Accounts of the Department :

The office of the Principal Director of Audit conducted audit of the accounts in February, 2006. The report submitted by them contained 13 points for the year 2004-05, along with certain other points for the previous years which have remained unsettled. A number of them are in the nature of guidance for maintenance of certain type of Registers etc. for various purposes being used in Admn./cash units. These have been noted for compliance and the paras are thereby being settled now.

Ministry of Finance
Government of India
New Delhi