# CHAPTER VIII : MINISTRY OF FINANCE

## Reserve Bank of India

### 8.1 Incorrect issue of Relief Bond-2002 in excess of prescribed limit

**Absence of validation checks led to acceptance of investments in excess of prescribed limit in respect of 8 *per cent* Relief Bonds 2002 by Rs. 127.70 crore and liability of Rs. 51.08 crore towards interest on the excess investment.**

A deposit Scheme of 9 *per cent* Relief Bonds was introduced by the Ministry of Finance in the year 1999. The rate of interest was reduced to 8.5 *per cent* in 2001. The Ministry of Finance (Ministry) vide notification dated 28th February 2002 further reduced the rate of interest to 8 *per cent* and restricted the maximum limit of investment to Rs. two lakh per investor *per annum* with effect from March 2002. The Ministry vide notification dated 22 April 2002 relaxed the maximum limit to investments made by retiring employees subject to the following conditions:

- Investment was made within three months from the date of full & final settlement with supporting document from the employer indicating that investment was made out of retirement/terminal benefit.
- Affidavit to the effect from the investor indicating that funds initially invested in relief bonds were out of retirement/terminal benefits in case of reinvestments.

The Reserve Bank of India (RBI) acts as the nodal agency for monitoring Public Debt and the Public Debt Offices (PDO) in various states of India and monitors transactions of 8 *per cent* Relief Bonds 2002. In May 2002, the RBI clarified that an individual could invest Rs. 2 lakh in addition to Rs. 2 lakh as Karta of HUF. Various PDOs, Public Sector Banks and private banks across the country were authorised to collect amounts of the said bond. The RBI had inter alia advised (May 2002) the banks to obtain a declaration from investors (both individual and karta) to the effect that aggregate investments in the bond did not exceed Rs. two lakh during 2002-03 and no interest would be payable on the amount of investments found in excess of ceiling limit.

An analysis of data pertaining to RBI/Agency Banks in 10 States using Computer Aided Audit Tools (CAAT), however, revealed:

* Absence of proper validation checks in the system regarding investment ceiling and failure/non-existence of compensatory manual

checks resulted in acceptance of excess investment in 2573 cases amounting to Rs. 127.70 crore.

- Liability of Rs. 51.08 crore was incurred as interest at the rate of 8 *per cent per annum* on excess investments in violation of RBI guidelines.
- The RBI/Agency banks had accepted the excess investment of Rs. 5.31 crore in 322 cases and refunded Rs. 1.46 crore relating to 108 cases (August 2006) thereby avoiding potential loss of Rs. 0.41 crore on account of interest.

The matter was brought to the notice of the Ministry in September 2006; reply was awaited as of December 2006.

**~~Department of Economic Affairs~~**

**~~(Banking Division)~~**

### ~~8.2 Premature release of funds resulting in their non-utilisation~~

**~~The Ministry released Rs. 100 crore to National Bank for Agriculture and Rural Development (NABARD) on 31 March 2003 under the scheme "revitalisation of co-operative credit structure" in anticipation of the passage of Banking Regulation (Amendment) Bill in the Parliament. Consequently, the amount remained unutilised for three years resulting in loss of interest of Rs. 25.30 crore.~~**

~~The Government of India constituted (April 1999) a Task Force Committee under the Chairmanship of the then Deputy Governor, Reserve Bank of India for studying the functioning of the rural credit system and suggest measures for its strengthening. The Committee submitted its report in July 2000 which was again considered by the Joint Committee on 'Revitalisation Support to Co-operative Credit Structure' under the Chairmanship of the then Minister of State for Finance. Based on the recommendations of these two committees, the National Bank for Agriculture and Rural Development (NABARD) formulated (July 2002) a scheme for revitalisation of co-operative credit structure which envisaged financial assistance of about Rs. 14500 crore to be shared between the Union and State Governments in the ratio of 60:40 (90:10 in the case of states of North East and Jammu and Kashmir). The assistance was subject to the condition that the State Governments would carry out legal reforms in the co-operative system and grant financial autonomy to the co-operative credit institutions in their governance and permit them to function strictly according to banking laws. Accordingly the Banking Regulation (Amendment) and Miscellaneous Provision Bill, 2003 was introduced in the Lok Sabha in August 2003 which was subsequently referred to the~~