Economic Reforms and Evolving Role of RBI as Banker to the Governments

Mr. Chairman, Mrs. Usha Sahajpal and friends,

I am thankful to the organizers for inviting me to the Silver Jubilee Year of founding of Accounts Organisation and I recognize it as a reflection of the close cooperation and understanding that have evolved between Reserve Bank of India (RBI) as a banker to Government of India and its Accounts organisation. The title of the address refers to being banker to governments simply because RBI is a banker not only to the Central Government, but also State Governments. RBI by virtue of its charter performs several functions, the most important being to secure stability in the internal and external value of the currency mainly through conduct of monetary policy, while at the same time, ensuring adequate availability of credit to meet the genuine needs of a growing economy. Currency Management is yet another function of the RBI which impacts the transactions of a large number of people. Managing public debt is also assigned to RBI, but this is sought to be separated from RBI in due course. Its regulation of money and forex markets flows from its primary responsibility while its role in debt markets is closely linked to it being manager of public debt. RBI is also a regulator and supervisor of banks, development financial institutions, and non-banking financial companies, but the process of supervision is overseen by an independent Board for Financial Supervision, within RBI. Incidentally, RBI is also a banker to banks. Payment System is also under the aegis of RBI, and the technological infrastructure for the financial sector, especially in the money and Government Securities market is provided by RBI to subserve its overall responsibilities. To the governments it renders advice on financial matters, whenever called upon to do so. Being banker to governments is also an important function, but is seldom in high profile, perhaps due to the reason that it does not directly or visibly impinge on prices or output. However, as will be explained today, though it is not a big-ticket item on RBI's balance-sheet, its role as a banker to governments is very significant and it has been evolving in the recent years reflecting the process of economic reform.

The Bank provides banking services to both Central and State Governments such as acceptance of moneys on Government account, payment / withdrawal of funds and collection and transfer of funds by various means throughout India. The Governments' principal accounts are maintained at Central Accounts Section of the Bank at Nagpur. Government accounts are handled by RBI at 15 Offices, besides two State Government Cells at Bhopal and Chandigarh. Further, all public sector banks and two private sector banks handle Governments accounts through their 20,800 branches. Currently, the Agency banks handle Governments transactions of around Rs.12 lakh crore in a full financial year. Over and above these, sizeable transactions are handled at Reserve Bank Offices. Some transactions, though minimal, are handled in Governments' own treasuries and sub treasuries, numbering 453, equipped with Currency Chests. This data gives the magnitude and spread of transactions relating to Governments.

The first part of today's presentation will cover very briefly cross-country practices. The second part provides the legal and institutional framework in India for conduct of Government's business in banking. The third section describes the range of banking services provided by RBI to Governments. The fourth part describes some of the reforms already undertaken in this area. The fifth section describes major issues while the concluding section indicates a possible agenda for immediate actions.

Cross-Country Practices

By custom and tradition or by express provision in the laws by which they have been established, Central Banks are bankers to their respective Governments. In the view of Sir Montagu Norman of the Bank of England and Benjamin Strong of the Federal Reserve System, the Central Bank should undertake all the banking business on behalf of their own Governments. However, the actual practices do vary among countries.

In the UK, Bank of England is the main banker to Government and maintains the Principal Central Government Account. Individual Government departments are not obliged to use Bank of England as their banker. Typically Government Department with significant requirements for banking service put some or all of their banking business out to tender. In the case of South Africa, the South African Reserve Bank acts as banker to the Central Government. Provincial Governments are, however, the clients of private banking sector. In Japan, Bank of Japan carries out the transactions with the National Government but not with local Governments. As regards USA, the Federal Reserve acts as the banker to US Government. The Reserve Banks serve as depositories of the United States and perform several payment-related services.

Legal and Institutional Framework

Government business in India was initially handled by the Presidency Banks of Bengal, Madras and Bombay from 1862 to 1921 and thereafter by the Imperial Bank of India, which came into existence as a result of amalgamation of the Presidency Banks. Since April 1, 1935, the Reserve Bank has been the banker to the Central and State Governments.

According to Article 283(1) and (2) of the Indian Constitution, it is open to the Central Government and to any State Government to make rules for the receipt, custody and disbursement of all the amounts accruing to or held in its consolidated or contingency funds or in its public account. Sections 20 and 21 of the Reserve Bank of India Act, 1934 provide that the Central Government shall entrust the Bank with all its money, remittance, exchange and banking transactions in India and the management of its public debt, and shall also deposit all its cash balances with the Bank free of interest. The Bank may, by agreement with any State Government, take over similar functions on behalf of that Government under Section 21A of the RBI Act. Accordingly, the RBI is the common banker to the Central Government and all the State Governments in the Indian Federation with the exception of Jammu & Kashmir and Sikkim.

The Reserve Bank, as banker to various Governments, has well defined obligations and provides several services. First, the Central Government Treasury Rules, the Central Government Account (Receipts and Payments) Rules, in respect of the transactions of the Central departments, and the corresponding provisions in the State Financial codes are deemed to be legally binding on the Bank. Second, the Bank carries on the General Banking business of the Centre and the States in terms of the working agreement between the Government and the Reserve Bank. The liability of the Bank to the Governments in the conduct of the Government business is that of a banker to an ordinary customer. Third, the Bank also undertakes to float loans and manage the loans on behalf of the Governments on agreed terms. Fourth, where there is no full-fledged office of RBI, it appoints commercial banks as agents of RBI and they are made responsible for transacting the entire Government business. Fifth, the Bank does not charge to Governments, the cost of carrying on Government business through its offices or the agency banks. Sixth, a facility for grant of ways and means advances is provided by Reserve Bank to the Governments, to meet the temporary mismatches in their income streams. Seventh, the RBI arranges for investments of surplus cash balances of the Governments as a portfolio manager. Eighth, the RBI also acts as Adviser to Government, whenever called upon to do so, on monetary and banking related matters besides dispensing merchant banking services.

Range of Banking Services

Banker to Central Government

The work relating to Government business is attended by the Public Accounts Department of the RBI. The discharge of the Bank's functions as banker to Government involves the receipt and payment of money on behalf of the various Government departments. For this purpose, under Section 45 of the RBI Act 1934, initially the RBI appointed State Bank of India as its sole agent at all places where the Bank had no office or branch of its Banking Department. In turn, SBI entered into agency agreements with all its associate banks and delegated the agency functions to some of the branches of the associate banks at certain centres. Considering the increasing volume of Government business and nationalisation of some commercial banks, the Government and the RBI associated nationalised banks, which had a vast network of branches, to conduct Government business. In 1970, the Government empowered the RBI to appoint them as agents at any centre. By 1976, the SBI, Associate Banks and nationalised banks were acting as agents of the RBI for this business. In order to facilitate the handling of Government receipts and payments, currency chests were established with a number of branches of nationalised banks in addition to SBI and Associate Banks.

Prior to 1976, the responsibility for arranging payments and compiling accounts of receipts and disbursals and auditing of transactions of all Central Government Ministries devolved on a single authority, viz., Comptroller and Auditor General of India. The Government introduced from April 1976, a scheme in stages for decentralisation and departmentalisation of accounts of individual Ministries at the Centre, thereby transferring the responsibility for maintenance of accounts at all stages to the Ministries / Departments themselves. Under this scheme each ministry/ department has been allotted a specific public sector bank for handling its transactions based on the principle of 'one bank - one ministry/department'. Hence, the Reserve Bank does not handle government's day-to-day transactions as before, except where the Bank itself has been nominated as banker to a particular ministry/department.

Banker to State Governments

The financial transactions of the State Governments are carried out at a number of offices, including those of the RBI SBI, nationalised banks, Treasuries, etc. The Government transactions conducted at all such places are allowed without any reference to the actual position of the cash balance of the State Government, the accounts of which are maintained at the Central Accounts Section of the RBI at Nagpur. The transactions that are put through at various agency bank branches in the State concerned are consolidated at the link cell in the respective State capitals and settled with the Reserve Bank Office in the State. Currently, Reserve Bank also handles directly, banking business of four State Governments viz., Karnataka, Maharashtra, Tamilnadu and West Bengal. The consolidated position including the State Government transactions put through at RBI Offices is ultimately booked in the Principal Account of the respective State maintained at CAS, Nagpur.

Central Accounts

The Central Accounts Section (CAS) at the RBI maintains the principal accounts of both Central and State Governments. The principal accounts in Nagpur are based on the daily position / aggregate receipts and payments in respect of each Government, Ministry / department, received from RBI offices and agency banks. Each of the accredited agency bank has set up a link office at Nagpur to liaise with CAS for funds settlement. Thus, the Bank's offices and agency banks' branches function like tributaries, which flow in the direction and merge into the Central Accounts Section. CAS, Nagpur, thus plays a pivotal role in consolidating the transactions and working out the overall daily position of each government.

The actual day-to-day transactions are handled by the Bank's offices and agency bank branches. They render accounts to respective Government accounting authorities while effecting monetary settlement with RBI. Since frequent adjustments between the various Governments are unavoidable, settlement of these transactions through Central Accounts Section is convenient, accurate and expeditious.

Reserve Bank through its Remittance Facilities Scheme operates a funds transfer system. It carries out the adjustments as between the various Governments providing in effect, facilities for the transfer of funds on a very large scale within the Government Sector. In order to facilitate the actual conduct of Government transactions, the Reserve Bank has built up over the years, a network of currency chests, repositories and small coins depots, all of which are intended to service all the Governments in the country.

As banker to the Government, Reserve Bank works out the overall funds position and sends daily advices showing the balances in its books, ways and means granted and investments made. The daily advices are followed up with monthly statements, and are useful from the point of view of enabling the Government to prepare their ways and means budgets.

The arrangement between the Government of India and the Reserve Bank on the one hand and the public sector banks and the Reserve Bank on the other, are based largely on trust as well as being merely contractual.

Treasury System

All payments on account of Central and State Governments are made either by cheques or by bills. The Government of India, Reserve Bank and the banks, which serve the treasuries and sub-treasuries normally, prefer cheques to bills. Certain States like Maharashtra, Gujarat, Karnataka, West Bengal etc. have adopted the system of payments by cheques at their Treasuries. However, a large number of States are yet to introduce the cheque System. In view of the advantages of cheques as compared with bills, Official policy continues to be in favour of changing over to cheque system.

Since 1976, Treasuries and non-departmental Pay and Accounts Offices have ceased to be responsible for handling transactions on behalf of the Central (Civil) Departments as integrated financial advisers and principal accounts officers of these departments have taken over the responsibility for receiving and paying money, compiling and maintaining the accounts, in respect of all the transactions relating to these departments. The pay and accounts officer or a drawing and disbursing officer of each Ministry or Department is linked to a designated public sector bank or RBI and is not allowed to draw on a treasury.

Other Services

In addition to being a pure banker to Government, RBI provides a full range of related services to Government. These include exchange, remittance transactions, management of public debt and issue of new loans, handling the forex transactions of the Government of India, investment of surplus funds of Governments, providing safe custody facility, providing of ways and means advances, management of special funds like Consolidated Sinking Fund, Guarantee Redemption Fund, Calamity Relief Funds, National Defence Scheme, etc., issue and management of tap bonds like Relief Bonds, administration of the Scheme for disbursal of pensions of Central and State Governments' employees through public sector banks, and as Advisor to Government on all matters involving monetary and economic perspective.

The fee recovered by the Bank for some of the above services, which are rendered as an adjunct to its role as Banker to Government, are nominal and do not even cover the costs, while for most other services no charge is levied.

Recent Reforms Undertaken

Focal Point and Beyond.

The experience of the working of the "Departmentalised Scheme" has shown a few shortcomings. With the large number of bank branches handling the work, delays often occurred in the transmission of the relevant documents (paid cheques, challans scrolls etc) to Pay and Accounts Officers (PAOs) for accounting. Besides, there were certain difficulties in reconciliation of figures between government departments and banks.

In order to obviate these difficulties as well as making reconciliation easier, a Working Group was set up in 1986 to review the working of the scheme, and on the basis of its recommendation existing procedures were revised. This marked the beginning of focal point approach for reporting and settlement of government transactions and set the pace for further refinement of the accounting system. The focal point approach envisages "one focal point branch - one (Pay and Accounts Office) PAO". This concept was incorporated into the system to bring about an interactive method of resolving the day-to-day problems while achieving expeditious reconciliation. This system ensures updating of accounts at PAO level and speedy settlement of funds at Central Accounts Section at Nagpur. It has, sought to bridge the gap between RBI accounts and Government accounts. Based on its success, it has been subsequently adopted in phases, in Central Board of Direct Taxes (CBDT) and extended to Departmentalised Ministries Accounts (DMA) (both civil and non-civil ministries). There has been a close alignment between accounting jurisdiction of the government and the dealing branches of the bank.

However, in the envisaged computerized environment, with electronic connectivity, the settlement of funds on real time basis, directly between the dealing branches and CAS at Nagpur for credit of Government Account without the intervention of the Focal Point and Link Cell may be a distinct possibility in the near future.

Standing Committee on Computerisation

Given the large magnitude of the transactions in Government account, the manual system results in delays in handling transactions. Complete electronic data processing in the preparation and settlement of the accounts of Government business by the agency banks as also for compilation of accounts at Treasury/Pay and Accounts Office/Accountant General will eliminate the time lag in the flow of information and improve standards of accuracy. During the last few years, RBI offices and agency banks have initiated steps for computerization of Government transactions at their dealing branches. The Committee on Technology Upgradation in Banking Sector laid down the road map for computerization of bank branches handling Government business, to be achieved in phases. The first phase envisaged computerization of all Focal Point branches of agencies by March 31, 2000 and State government Link Cells / dealing branches in the second phase thereafter. The Committee desired that efforts should be made to inter-connect the computerized branches dealing in Government Accounts with Link Offices/ branches, and the Public Accounts Departments of the Bank and also Central Accounts

Section, Nagpur where it is ultimately accounted for in the books of accounts. On Government side, the Committee suggested that all PAOs/Circle Offices of Government should be computerized by March 31, 2001 and the Drawing Offices / Treasury Offices well before March 31, 2002 in alignment with computerization of Focal Point and Dealing branches.

A Standing Committee comprising members from RBI, Government and agency banks is monitoring the computerization of government transactions. There have been some delays in adhering to the time schedule mentioned. RBI has been urging the agency banks to capture 80 per cent of Government business by June 2002.

Payment Systems Reforms

Payment and Settlement Systems constitute the backbone of any economy and the existence of competent payment and settlement systems have a positive impact on the efficient functioning of the various sectors of the economy. Central Banks in the world are according great importance to well established payment and settlement systems. The Reserve Bank, too, has taken up as its mission, the establishment of a robust, safe, secure and efficient payment and settlement system for the country as part of its initiatives aimed at financial sector reforms in this area. Constituted in 1999, the National Payments Council is the Apex level body, which provides general policy directions and guidelines for reforms in the Payment and Settlement Systems of the country.

Initiatives aimed at improvements in the payments and settlement systems are centered on the three-pronged strategies of consolidation, development and integration of the various components of the payment and settlement systems. Consolidation takes its base from existing activities such as computerised clearing, etc. Development envisages opening of new clearing houses, introduction of systems such as the Centralised Funds Management System and Real Time Gross Settlement (RTGS) and Integration of all these initiatives both within the Reserve Bank and for the banking Sector as a whole would result in the culmination of the reform process.

Non-paper based payment systems, such as Electronic Funds Transfers (EFT) and Electronic Clearing Services (debit and Credit Clearing), have been accepted widely for use within the country. The proposed introduction of the Real Time Gross Settlement (RTGS) System would ensure settlement of funds in real time and in an electronic manner. All these would have positive impact for the government sector too, which could exploit the benefits of ECS and EFT for even their conventional payments - such as tax collections, various payments, tax refunds, drawback payments, etc.

Since movement of funds is scheduled to take place using electronic means, the need for providing for a more elaborate and clear legal infrastructure has also been recognized. Accordingly, work has commenced on draft legislation to regulate the payment systems, which may not only be restricted to banks and financial institutions, but could also go beyond that. The proposed legislation will also have powers to regulate EFT, except that the proposed EFT regulation will deal only with credit transfer. The debit transfer transactions will continue to be governed by the Negotiable Instruments Act, 1881. Further, in order to deal with electronic instruments like e-cheques, which are in the nature of debit transfer, amendments to the Negotiable Instruments Act 1881 and IT Act 2000 have been suggested for consideration of Government.

Improving Connectivity between CGA and CAS

Computerisation in Central Accounts Section and connectivity to various user agencies:

Since July 1, 2001, a state-of-the-art technological Architecture for management of Government Accounts at Central Accounts Section, Nagpur was set up. The system provides online data processing capability in front office mode and on line connectivity to all the RBI offices, agency banks and State Governments. The system is designed to provide information on a real-time on-line basis to Central and State Governments for ascertaining their cash balance position and other transactions.

As a further improvement, a Virtual Private Network (VPN) is being established between CGA and Principal Accounts Officers of various ministries. The network is also proposed to be extended to the Pay & Accounts Office level. The network would act as a hub for electronic interchange of information between CAS Nagpur and various civil and non-civil ministries. While Inter Government Transactions would be handled on an online basis, the Agency Bank transactions will be available as and when reported to CAS.

The above arrangements when fully put in place will enable the various Principal Accounts Offices to send Inter-Government Transactions, along with details of the relative sanction orders to CAS electronically, get confirmation advices (clearance memos) instantly and eliminate most of the reconciliation problems not only at the level of Central Government but also facilitate proper accounting in the States.

In fact State Governments have been complaining regarding delays in receipt of sanction orders as a result of which they are unable to know the purpose of the funds being given from Central Government at the time of such amount being credited by RBI to their accounts. RBI has also taken initiative in redesigning the format of the IGA (Inter Government Adjustment) advice and Clearance Memo to ensure that the advice being sent to CAS is comprehensive and meets requirements of the State Governments as well. I would request the Office of CGA to examine the suggestions made by us in this regard and implement the revised IGA format at the earliest.

Another benefit of the connectivity would be strong MIS support. From the Bank's view point, on-line access will eliminate the need for periodical statements being sent to the accounting authorities as the authorities will be able to choose the period (a week, fortnight, month or more) for which they want the data and then can use it for any number of MIS purposes. Maintenance of parallel records can also be eliminated.

The RBI is also examining the feasibility of using the Internet to connect all State Governments, Central Government Departments and various agency banks to implement total workflow automation in respect Government transaction.

Under the current procedure, the fund settlement at CAS Nagpur takes place after the rendering of accounts by the focal point branches to the local PAO. The focal point branches receive the scrolls and the documents from the dealing branches by post (normally by Registered post). This means that settlement of funds is inevitably delayed for the period of postal transit plus the time for consolidation at focal point branch creating a lag in final accounting in government account with CAS Nagpur. During this lag, the funds remain in pipeline as a float at the cost of government departments. Often, the banks also suffer opportunity loss due to delay in monetary settlement. With the computerization of transactions both at the bank branches and government departments, it would be possible to re-engineer the process. Forwarding of paper scroll/receipted challans and paid cheques to government offices could take place at a later stage than the electronic transmission of transactions. This means that the focal point branch would transmit the transactions to CAS Nagpur without waiting for the scrolls received from the branches to be consolidated and verified. The Committee on Technology Upgradation in Banking Sector examined this aspect and felt that this would help in quicker finalisation of government account and fund settlement at CAS Nagpur. The issue remains open.

Interaction with States

A forum has been provided by the Reserve Bank bringing all the Finance Secretaries of State Governments and the Union for exchange of ideas and sorting out the problems. These conferences are held in Reserve Bank for the last few years and the deliberations have proved useful in identifying the common problems and developing best practices in regard to Government finances. Between November 1997 and November 2001, nine such conferences have been held. A number of important initiatives relating to ways and means advances, approach to market borrowing programme, investment of surpluses, ceilings on State guarantees, apart from changes in the content and format for reporting have emanated and taken shape as a result of interactions in these meetings.

Major Issues

Minimum Balances Requirements in Government

The RBI is authorized to provide Ways and Means Advances to Central and State Governments in terms of Section 17(5) of the RBI Act. Until 1994-95, the needs of Government were accommodated through automatic monetisation by issuing *ad hoc* Treasury Bills at 4.6 per cent. Considering the ill effects of automatic monetisation of Government deficit, the Reserve Bank and the Government agreed mutually in September 1994 to restrict the issue of *ad hocs* for the year-end and also within the year and for scrapping the issue of *ad hoc* treasury bills from 1 April 1997. Accordingly the issue of *ad hoc* treasury bills was discontinued with effect from 1 April 1997. Simultaneously, a scheme of granting Ways and Means Advances by the Reserve Bank to

Government of India has been introduced to accommodate temporary mismatches in Government receipts and payments, interest *on* which was initially concessional, is presently at Bank Rate. Currently, Central Government is required to maintain a minimum balance of Rs.10 crore on a daily basis and Rs.100 crore on Fridays. The limit for Ways & Means Advances for 2001-2002 to Central Government has been fixed at Rs. 10,000 crore for the first half year and at Rs. 6,000 crore for the second half year. When the Government utilizes 75 per cent of the WMA limit, the Reserve Bank considers fresh floatation of market loan depending on market conditions.

State Governments were expected to match the outflows with inflows very carefully so as to avoid recourse to ways and means advances from RBI. If a State Government allowed its account to emerge in overdraft, this would have been regarded with extreme disfavour and also as reflecting on the competence and ability of the State Government to manage its own finances. Over the years, the State Governments resorted increasingly to WMA and overdraft. The WMA limits were fixed as a multiple of minimum balance of States. However, while the multiples increased, the minimum balances required to be maintained by the State Governments were not revised between 1976 and 1999. Since 1999, the WMA Scheme is being worked out on the basis of the recommendations of the B.P.R.Vittal Committee (1998). The Committee recommended that the minimum balance should be revised and linked to the same base as normal WMA which itself is worked out taking into account the sum of revenue receipts and capital expenditure. The first revision after the implementation of the Vittal Committee formula was effected from April 1, 1999, followed by the next revision from February 1, 2001. The latest revision took effect from April 1, 2002. However, the minimum balances have not been revised since April 1, 1999. A review of the WMA scheme will be made in April 2003.

Automatic Debit Mechanism

The Technical Committee of State Finance Secretaries on the State Government Guarantees has observed that such a mechanism runs the risk of resulting in insufficient funds for financing minimum obligatory payments and other grounds as well. Using an automatic recovery mechanism for inviting subscription to bonds issued by autonomous bodies with State Government Guarantees not only erodes the credibility of the State Government, but also would prompt other States to request for such assurance to offer additional comfort for investors. The matter is under the consideration of the Reserve Bank and the Central Government.

Expansion in Agency Banks

At present, the RBI, SBI and nationalised banks conduct business relating to Governments. More recently, private banks promoted by the all India Financial Institutions (AFI), which meet the defined criteria, are also being considered for induction for conduct of Government business. The objective is to help the State Governments to get better, quick service with safety of funds. The question is to strike a balance between the two and this may have to be decided by the States with the help of RBI. Thus, there can be competition for Government business in the future.

The Reserve Bank, being a Central Bank, for achieving the functional focus, may have to consider in due course, shedding of the retail banking business in relation to Governments in favour of the agency banks with a view to ensuring that in the long run, the Bank will maintain only the Principal Accounts of the Governments, leaving the day-to-day banking business to the commercial banks functioning as its agents.

Treasury

The treasury system has evolved very gradually over a number of years and has worked with reasonable satisfaction. Nevertheless, there is scope for improvement with a view to providing more facilities to the general public in a number of ways. First, the non-banking treasuries / sub-treasuries, which handle the cash business itself, could be gradually converted into banking treasuries by transferring their cash business to banks. Second, States may weigh the option of introducing separation of audit and accounts and departmentalization of accounts on the lines of Centre gradually. Third, as cheques for various reasons are preferable to bills, it is desirable to encourage wider use of cheques. The treasury is the primary accounting unit and its cash accounts are prepared and rendered to Accountant General. Fourth, in order to cut short delays, many treasuries, sub-treasuries and pay and accounts offices have made arrangements for disbursing small amounts in cash without the intervention of the bank, even when they are served by the public sector banks as agents. It may be advantageous to raise the monetary limit for payments across the counters, without requiring the payees to visit the banks.

Rationalising Agency Charges

The agreements entered into by Bank with the State Governments provide that the Bank shall not be entitled to any remuneration for the conduct of ordinary banking business of the Government other than such advantage that may accrue to it from holding of cash balances free of obligation to pay interest thereof. The minimum balances by no means compensate the Bank for the cost of conducting Government business. On the contrary, the Bank has been remunerating the Agency banks for conducting the Government business on its behalf at a rate related to the costs incurred by them for conducting Government business. The rate is revised from time to time quinquennially after ascertaining the actual cost of conducting the government business and the present rate is 11.80 paise per Rs.100 of Government turnover. Agency banks requested for a revision of the methodology of determining the rates and an Expert Committee was constituted to study their request. Recently in its report, the Expert Group on revising the methodology for determining the cost of conducting Government business, has observed that in most of the countries, the cost is borne by the respective Governments and not the Central Bank. The cost of conducting government business has been rising in the recent years. A possible way of rationalising the agency charges from the present cost plus system could be to move over to a system of bidding for Government business by agency banks.

Reducing Lags in Credit

At present, banks have been allowed a transit time of 5 days in respect of local receipts and 9 days in respect of outstation receipts for settlement of funds. In order to ensure expeditious credit to Government account by the dealing branches, a deterrent measure has been put in place. Accordingly, any delay in crediting the receipts to Government account beyond the stipulated period (of 15 days in case of delayed remittances over Rs.1 lakh and one month in other cases) attracts penal interest. As compared to public sector banks, the newly inducted private banks are allowed merely 5 days for settlement. This is based on the distinction in regard to the degree of computerization of public sector banks *vis-à-vis* private banks. With the upgradation of payment systems in the country and electronic connectivity, the cut off limits needs to be made more stringent with the ultimate goal of achieving real time settlement in Government Account, with CAS, Nagpur.

Possible Improvements by Government

Submission of Scrolls in Electronic Form

At present, the scrolls are submitted in paper form separately for receipts and payments. With the computerization of bank branches and government departments, the scrolls in magnetic media (floppy form) should be acceptable to Government departments. A switch over to submission of scrolls on magnetic media, will necessitate delinking of paid instruments and the payment scrolls.

The Reserve Bank has introduced 'Electronic Clearing Service' (ECS) for bulk receipts / payments which involve multiple credits with a single debit or vice-versa. ECS is customer friendly and remains untapped by Government. Government should use ECS for bulk and repetitive transactions like salary, pension, income tax refund orders etc. As recommended by the Committee on Technology Upgradation in the Banking Sector, the Government may examine the feasibility of introducing a variant of an electronic funds transfer system to facilitate collection of taxes, beginning with direct taxes.

Elimination of Paper-based Reporting System

Under the present system, it is a government requirement that all deposits in the government account should be accompanied by an appropriate challan. The challans are in multiple copies, different shapes and sizes. This requirement of the government has constrained the process of electronic banking in government business. Over the years, despite the deliberations in various fora, it has not been possible to reduce the number of copies of challan. With the swift progress in banking, and the electronic connectivity as envisaged, it would become possible for the assessees to deposit the government dues in any designated bank by using a simple pay-in slip as in the case of bank deposit, and at a later stage, electronically by quoting the PAN. The elimination of the challan would pave the way for electronic settlement.

Discontinuance of Advice System for Income Tax Refund Orders

At present, Income-tax refund orders advices for value upto Rs.999 are sent directly to assessees while advices for Rs.1,000 and above are forwarded to payee banks. The advices are not received promptly resulting in the return of refund orders causing inconvenience to assessees. Significantly, even after switchover to MICR form with all its in-built security features on par with a cheque, the advice system has been continued regardless of the difficulties caused to the assessees. At the Government level, issues related to ECS and forwarding of advices in electronic formats viz., magnetic media, etc., are being considered.

Customer Service

Government of India has constituted a standing committee at Apex level to monitor the working of the schemes pertaining to Departmentalised Ministries. Similar monitoring committees at local level are also functioning for Central Board of Excise and Customs (CBEC) and CBDT.

Reserve Bank has been proactive in extending prompt and courteous customer service. The bank has an institutionalized set up for redressal of complaints from customers on regular basis. The Bank has also taken Citizen Charter initiatives and displayed the Charter for frontline Departments with public interface. Specific to this, customer satisfaction surveys are organized at frequent intervals and appropriate responses are formulated for improving service and avoiding recurrence of complaints, to the extent feasible.

In order to assess the level of customer satisfaction rendered by the Reserve Bank and its agencies in acting as banker to Governments in the light of all round technological developments taking place at RBI/agency banks/ Government Departments and to suggest improvements in the day-to-day operations of the Government business, Reserve Bank had constituted five sub-Groups in October 2001, one each at Bangalore, Chennai, Hyderabad, Mumbai and Nagpur offices comprising officials from Reserve Bank, representatives from Finance Department of the State Governments. The sub-Groups had deliberated on the day-to-day operational procedures in vogue in Reserve Bank and evaluated their efficiency in relation to the users and accounting authorities.

The Groups came up with very valuable suggestions in January 2002. This includes laying down a roadmap for enhancing the level of computerization, both at agency banks and Government Departments, provision of tele-banking facility at all Link Offices, simplification of challan forms, making the challans easily available through internet, transmission of scrolls / DMS through electronic media in addition to regular mode, phasing out of non-MICR instruments, acceptance of only local cheques for Government payments instead of outstation instruments, cheque system to replace bill system at Government Departments, use of ECS for effecting Government payments, introduction of note sorting machines at Government Departments, easing pensioners' problems, acceptance of cash by RBI beyond working hours, curtailing the cut-off period for levy of penal interest on delayed remittance of Government collections / funds to RBI by agency banks progressively, extension of time available at CAS for settlement of funds by link cells of agency banks at Nagpur.

The RBI is earnest in its intent to implement all these recommendations in consultation with the Governments/agency banks. The RBI is also formalizing the review mechanism by setting up Standing Advisory Committees under the Regional Directors of RBI offices at all centers, so as to ensure optimum customer satisfaction at all times. The day-to-day procedures are being recast in the light of the suggestions, which have emerged.

Conclusion

The endeavour of the RBI is to create conditions for the common person to pay Government dues at his/her bank branch of choice, while ensuring instantaneous credit to the Government account with Reserve Bank. This can be achieved with a high degree of computerization with appropriate connectivity / net-working, encompassing agency banks, Government Departments and Central Bank for expeditious, cost effective and seamless financial flows, in a paperless environment.

In view of the enormous work of Government and complexities and inter linkages between the Central and State Governments and the banking system, it maybe possible to explore the setting up of an Advisory Board, which could meet quarterly, for evolving best practices in the overall interest of discharging the Reserve Bank's duties as Banker to Governments. This arrangement will be analogous to the Cash and Debt Management Group in which Government of India and the RBI are involved. I commend the acceptance of this proposal as a fitting tribute to this Silver Jubilee Celebrations.

Thank You.

· Address of Dr.Y.V.Reddy, Deputy Governor, Reserve Bank of India, at the Conference of the Silver Jubilee Celebrations of the Indian Civil Accounts Organization, at New Delhi on April 3, 2002. Dr.Reddy is thankful to Mr.K.Venkatappa, Dr.A.Prasad, who also presented on Dr.Reddy's behalf, Mr.G.D.Kallianpur and Mr.P.Loganathan for their assistance.