REPORT OF THE STUDY GROUP ON EXTENSION OF CREDIT LIMITS ON CONSORTIUM/PARTICIPATION BASIS

RESERVE BANK OF INDIA

1974

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CHAPTER 1

INTRODUCTION

Constitution of the Study Group

1. Inaugurating the deliberations of the Study Group on 9 January 1974, Dr. R. K. Hazari, Deputy Governor, Reserve Bank of India, referred to the perspectives of contemporary banking, and called upon the Group to evolve guidelines that would reflect the response of the banking system to the growing magnitude and complexities of bank credit. There has been a progressive increase in the canalisation of trade, and credit needs of major units in the Public and Private Sectors have risen steeply. The structure of bank credit itself has also changed markedly, and there has been considerable growth of multiple banking in recent years. It is necessary to review the entire framework of lending practices of banks in respect of multiple banking and to formulate ground rules which will subserve better co-ordination of their lending activity, ground rules which will not only set the pace for the sharing of advances between banks, but which will take into account the borrowers' viewpoints. The Deputy Governor said that the guidelines should be flexible enough to meet emerging conditions from time to time ; they should operate equally well in times of resources constraint as in times of excess liquidity.

The Study Group was constituted in terms of the memorandum of the Reserve Bank of India issued on 12 December 1973.

Terms of Reference

2. The terms of reference were:

(*i*) To make recommendations for sharing between banks of banking business of all types (including working capital finance, term loans and foreign exchange business) of companies/corporations in the public sector including State Electricity Boards and canalising agencies formed by Government to engage in domestic and external trade.

(*ii*) To review the existing arrangements relating to consortium of banks providing domestic and export credit to units in the private sector and to make recommendations for bringing about improvements in such participation arrangements.

(*iii*) To examine the need for participation amongst banks for reviving sick units and to make recommendations in this regard.

(*iv*) To make recommendations for better co-ordination and co-operation amongst banks in respect of multiple banking, *i.e.*, a number of banks financing one borrower.

(*v*) To make recommendations regarding any other matter relating to financing by banks on a joint basis.

Members of the Study Group

3. The following persons were appointed to constitute the Study Group :

(*i*) Shri G. Lakshminarayanan, Chairman, Indian Bank, Madras. — *Chairman*

(*ii*) Shri R. C. Shah, General Manager, Bank of Baroda, Bombay. — *Member*

(*iii*) Shri S. Padmanabhan, Chief Officer, Commercial and Institutional Banking Department, State Bank of India, Bombay. — *Member*

(*iv*) Shri O. P. Gupta, Senior Regional Manager, Punjab National Bank, Bombay. — *Member*

(*v*) Shri R. Pichai, Assistant General Manager (Operations), United Commercial Bank, Calcutta. — *Member*

(*vi*) Shri G. N. Ranade, Executive Regional Manager, Bank of India, Bombay. — *Member*

(*vii*) Shri S. V. S. Raghavan,* — *Member*
Director (Finance),
Bharat Heavy Electricals Ltd.,
New Delhi.

(*viii*) Shri P. K. Nanda, — *Member*
Managing Director,
Metal Box Co. of India Ltd.,
Calcutta.

(*ix*) Shri N. Rajan, — *Member*
Adviser (Finance),
Bureau of Public Enterprises,
Ministry of Finance,
Government of India,
New Delhi.

(*x*) Shri K. B. Chore, — *Member-Secretary*
Joint Chief Officer,
Department of Banking Operations
and Development,
Reserve Bank of India,
Bombay.

The Study Group invited Shri A. K. Bhuchar, Joint Chief Officer, Department of Banking Operations and Development and Shri A. Raman, Director, Credit Planning Cell, of the Reserve Bank of India, for all the meetings of the Group.

Meetings of the Group

4. The Group elicited the views of bankers and industrialists in the Public and Private sectors, representatives of term lending institutions, Government officials, Presidents of Chambers of Commerce and Industry, Professors and business executives, at the Study Group's meetings held in Bombay, Calcutta, Delhi and Madras. A list of persons, who tendered evidence before the Group is furnished in Annexure I.

The Study Group held 10 meetings. The Study Group's Report was signed by the Members and presented to Dr. R. K. Hazari, Deputy Governor, Reserve Bank on 16 July 1974.

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* Initially Shri V. Krishnamurthy, Chairman & Managing Director, Bharat Heavy Electricals Ltd., was appointed as a Member. In view of his other pre-occupations, Shri S. V. S. Raghavan was appointed in his place in January 1974.

CHAPTER 2

BACKGROUND AND APPROACH

Participation/Consortium-Definitions

5. "The Devil's Dictionary of Banking"* defines "participation" as a "financial exercise in which, as a result of legal limitation or graveyard fear, one bank, having no guts, induces another bank, having no knowledge, to take part in a fiscal adventure which is not improved by the fact that, the combination of two banks does not represent the composite temerity and skill of both, but rather the least courage the least skill to be found in either." It goes on to add that "naturally, this has become the most popular of all banking operations".

In reality, however, the word "participate" is derived from the Latin words "Pars" meaning "part", and "capio" meaning "to take", *i.e.*, to take part, to share in common with others. The term "participation" will cover formal arrangements for sharing between participating banks, *i.e.*, on "consortium" basis, joint financing with informal arrangements, and participation through one or other of marketable instruments. The word "consortium" means, in its historical context, "an agreement between several powers or national banking interests to give joint financial assistance to another power."@ The word "consortium" would appear to indicate what German banks mean by the word "Konsortium" described in the following terms in the 1930's:

"In order to reduce the risk borne by a single bank and to create a wide interest in the success of an issue, it is very common for several banks (or bankers) to make themselves responsible for the issue collectively. For the purpose they come together in a loose, elastic association, called a *Konsortium.* Where the securities to be issued result from a promotion, it is natural to find that the members of this association (the *Konsorten*) and the promoters are identical but this is not always the case—a bank which took no part in the promotion, for instance, may at a later stage take up an interest in the emmission. To return to the working of the *Konsortium*, the details vary from case to case, but the following arrangements may be taken as typical. Each member pledges itself to accept a certain portion of the issue and to make payments in respect of it as required. One bank is chosen as director (*Leiter*) of the common transactions, guided, if the *Konsortium* is a large one, by a small committee. For fear some of the members should act contrary to the general plan, the securities are not divided amongst them, but remain

* Ira M. Koger. @ Webster Universal Dictionary.

until definite sale in the hands of the managing bank (Leiter); which is thus constituted a central selling agency to which the *Konsorten* pass their orders. This bank also intervenes to regulate the price of older securities of the same origin, keeps the common accounts, and calls upon the members as necessary for contribution. On the termination of the *Konsortium*, the total profit or loss and any remaining securities are shared between the members in proportion to the participation which they have accepted in the issue. The *Konsortium* is generally formed for a certain period, but may be liquidated before this or renewed for a further term."*

Rise of Consortium Banking

6. Participation advances are perhaps more widely prevalent in the United States than in any other country, arising mainly from the unit-banking system in several States and limitation of the amount of lending to any one borrower as a percentage of the capital and reserves of the lending bank. Consortium banking has been in vogue in other countries as well, but the emergence of the Euro-dollar market in the sixties has lifted the theme of consortium banking far beyond national frontiers. Referring to the phenomenal rise of consortium banking since 1964, Mr. Michael Von Clemm** notes that the trend "has important implications not only for the investor banks and corporate customers of consortia but also for the international economy, since consortia have great potential for linking national money markets to the international money market . . . In 1964 the current movement was originated by the foundation of a bank called Midland and International Bank Ltd. now universally referred to as 'Maible'. Established to extend credits mainly of a medium term—*i.e.*, three to eight years—Maible's parents are Britain's Midland Bank Ltd., Canada's The Toronto Dominion Bank, The Commercial Bank of Australia Ltd., and an Anglo-African Bank, the Standard Bank Ltd. In the first six years of its existence, Maible has amassed deposits sufficient to place it among the 175 largest banks in the world, which, interestingly enough, makes it bigger than one of its founding shareholders." Of the 58 consortium banks listed by Mr. Michael Von Clemm 38 were incorporated in the five years 1967-71. The recent emergence of gigantic "petro-currency" adds a new dimension to international consortia. Even already the scale of operations has been so vast that the technique of consortium lending has been developed into a fine art with so many roles built into it,—"the manager of a syndicated loan (the Bank that puts it together) ; the lead bank (the bank that takes up the largest share) ; and the agent (the house authorised to act on behalf of the other lenders). Usually one

* Extract from the book entitled 'Joint Stock Banking in Germany' by P. Barrett Whale (MacMillan & Co. Ltd., London—1930) (p. 45-46).

** Harvard Business Review, May-June 1971.

bank fulfils all three roles . . . . Two distinct types of medium term lending where the loan is spread around several banks has emerged. The first is where the bank commits the total loan to the borrower off its own bat and then offers participation in the loan to other banks. The second is where a syndicate is formed to make the loan which cannot be committed until the syndicate is complete and all members have agreed to the terms . . . Criteria for picking a member include geographical expertise, exposure in terms of lending to that area, knowledge of the borrower, availability for future syndicates, likelihood of reciprocal gestures, and in the case of consortia, whether they are shareholders or not."*

Cosortium Financing in India

Indian Central Banking Enquiry Committee

7.1 The concept of consortium financing is not new to India. As early as in 1931, the Indian Cenral Banking Enquiry Committee made a reference to the German "Konsortium" and suggested the formation of a syndicate of Indian banks in connection with the issue of shares and debentures by industrial companies. Later in 1954, the Committee on Finance for Private Sector, popularly known as Shroff Committee, endorsed this suggestion in the following words:

"The Committee feels that the indirect participation by banks in long-term industrial finance would be considerably facilitated if the leading banks in India, in co-operation with insurance companies, could form a consortium or syndicate for underwriting or investing in new issues of shares and debentures of industrial companies wherever they are satisfied about the soundness and prospects of the projects. . . Such a consortium could appropriately function under the leadership of the largest joint stock bank in the country, namely, the Imperial Bank of India " (Paragraph 99).

Estimates Committee

7.2 The thirty-sixth report of Estimates Committee (1962-63) on Ministry of Finance—Industrial Finance Corporation of India—also welcomed the proposal to constitute a consortium for the purpose of joint financing of big projects. Although, officially no standing consortium was formed for joint financing of big projects, it was felt that with the establishment of the Industrial Development Bank of India, the financing of undertakings jointly would be rendered easier.

Dehejia Committee

7.3 Recently, the Dehejia Committee recommended the adoption of consortia arrangement. It said:

* Philip Howard—'Medium-Term Lending, Lead Managers and Medium-Term Loans'——*Euromoney*, January 1972.

"We understand that there is joint collaboration as between banks, on a limited scale, where credit requirements of borrowers are very large and could not be met out of resources of one bank. We commend the adoption of such consortia arrangements by banks for large loans" (Paragraph 55).

Ramanujam and Narasimham Committees

7.4 The Ramanujam Committee (Study Group on Term Loan Participation Arrangements) recommended the strengthening of joint financing and co-ordination of term loans, and also commended a scheme for participation based on promissory notes or participation certificates. The Narasimham Committee (Working Group on Enlarging the use of the Bill of Exchange as an Instrument of Credit and the Creation of a Bill Market) examined the possibility of making use of usance bills of different maturities and participation certificates for the purpose of participation amongst banks.

Banking Commission

7.5 The Banking Commission which pleaded for "one bank : one borrower" principle as a step towards enforcement of financial discipline conceded that where the requirements of a borrower are large, the principle "one bank one borrower" may also be modified by a consortium of banks entering into participation arrangements or by mutual arrangement between banks (Paragraph 11.51).

Dimensions of Participation

Bank resources and optimum economic development

8.1 The Group looks upon participation as a dynamic concept, not an exigency, a concept that can promote collective application of banking resources to the optimum development of the economy. In the last few years, banking trends have witnessed the swing of the pendulum from embarrassing excess liquidity to excruciating credit stringency, a sharp shift from competitive bid to win borrowers, to shying away from them to the point of virtually freezing their drawing limits. While a diverse economy of India's vastness, often aggravated by external forces, may not escape extreme swings even at quick intervals, the banking system cannot remain a passive spectator ; it has to bring about deliberate refinements in its approach and operations that will fuse the disparate liquidity position of different banks into a regulated credit flow, a regulated competition which does not inhibit innovations, but which at the same time approximates the lending activity of the banking system to the total credit needs of the economy. The Indian banking system has grown so rapidly in the last decade in resources volume

and geographical and functional coverage that it owes it to itself to build up a matching internal discipline.

National goals and role of commercial banks

8.2 A Top Management Conference convened by the National Institute of Bank Management in August 1972, inaugurated by Shri S. Jagannathan, Governor, Reserve Bank of India and addressed by the Hon'ble Minister of Finance Shri Y. B. Chavan, addressed itself to the theme "National goals and Role of Commercial Banks." The primary task in this role is to bring about an abiding co-ordination of lending activities of the banking system whereby the members participate effectively in applying their lending capability through participation, between one another in larger advances, not only as an expedient in times of resources constraint but as a way of banking.

Consortia for area development

8.3 In fact, one banker giving evidence before the Group urged consortia not only to share larger advances, but as a means of area development and participation in credit to agriculture and small scale industry in backward regions. The Group concurs with this view.

A representative of the tea industry dwelt on the importance of the development of tea industry as a major factor in earning foreign exchange as well as promoting employment opportunity. He stated that developmental outlay in tea is somewhat different from organised industrial sector in that investment in machinery in tea industry is comparatively small, and funds accrual by way of depreciation is meagre, and therefore does not admit plough back of adequate funds for development. At the same time scope of development of the industry through adequate development credit from banks was immense. He pleaded for special bank consortia for tea development finance.

A representative of a leading export industry referred to immense scope for export of machinery to developing countries and urged that the entire system and procedure relative to machinery export as different from other export needed a review, and here again bank consortia would be most useful. The representative of a term lending institution suggested bank consortia for export credit, even outside the aegis of the I.D.B.I.

Upgrading of skills

8.4 From the internal aspects of banking, consortia approach would lead to the upgrading of skills of the units by the impact of the expertise of one another in project appraisal, credit appraisal, post credit moni-

toring, foreign exchange operations, pooling of commodity and geographical perspectives, etc.

Resources shortage

8.5 A large body of opinion before the Group predicted continuing credit shortage in India for quite sometime, although the degree of stringency may vary from time to time. In fact the representative of a term lending institution anticipated mounting demand for developmental term loans far beyond the resources capability of the term lending institutions and called upon commercial banks to set aside a percentage of their deposit resources to provide funds for the term lending institutions, apart from their direct participation in term loans.

Culture of banking

8.6 It is imperative that the banking system accepts participation in advances as the very culture and philosophy of banking and as a new dimension in the application of banking resources to the development of the economy, the interest of individual units being integrated with the total needs of the economy. The Group has been actuated by these thoughts in formulating its recommendations.

Consortium Lending in India

9. Though a number of Committees and Working Groups have commended in the past the adoption of consortium lending in India, participation arrangements between banks have been few and far between, perhaps for historical reasons. Early joint stock banking in India was evolved on the lines of banking in the United Kingdom, and generally the average size of corporate credit needs was, until recently, within the lending capability of individual banks. The traditional association of several business houses, also until recently, with certain banks tended to industrial credits being confined to the banks concerned. Again for historical reasons, practically all the public sector borrowings, as well as the borrowings of several large business houses were confined to the Imperial Bank of India and its successor, the State Bank of India. A major thrust to industrialisation in the post-independence era, the setting up of capital intensive industries in the public and the private sectors, and the phenomenal rise in the cost of industrial raw materials and fuel have lent a new dimension to the structure and content of bank credit to industry and to the need, more than ever before, for the resources co-ordination of the banking system. Likewise, nationalisation of 14 major Indian banks in 1969 has lent a new dimension to the structure and pattern of the banking system itself. In the recent past, quite a few consortia have been formed in the field of term lending, thanks to the inter-institutional leadership of the Industrial Development Bank

of India, and as a corollary, in connected working funds participation too. Some consortia lending has come into being in other fields as well. The food consortium, forged under the auspices of the Reserve Bank of India, is another major effort at pooling bank resources. Yet, as of now, multiple banking, rather than consortium banking, appears to be the rule where credit needs are beyond the choice or resources capability of a single bank.

Multiple Banking

Bank credit of Rs. 1 crore and more

10.1 As a statistical background, we present a table of distribution of scheduled commercial bank credit according to size of credit limit (Table A). As at last Friday, December 1972, there were 1372 acounts with credit limits ranging from over Rs.1 crore to Rs. 25 crores, out of the total number of 43,40,205 lending accounts of scheduled commercial banks. These 1372 accounts carried an aggregate sanctioned limit of Rs. 3176.60 crores, under which amount actually drawn was Rs. 1504.54 crores out of the total amount of Rs. 5553.07 crores in 43,40,205 accounts.

TABLE A

DISTRIBUTION OF OUTSTANDING CREDIT OF SCHEDULED COMMERCIAL BANKS ACCORDING TO SIZE OF CREDIT LIMIT*
(As on the last Friday of December 1972)

(Amounts in lakhs of rupees)

	No. of accounts	Credit limit	Amount outstanding
Rs. 10,000 or less	3923,638	884,49	501,71
Above Rs. 10,000 and upto Rs. 1 lakh ..	317,885	1783,27	645,42
Above Rs. 1 lakh and upto Rs. 5 lakhs ..	69,193	1264,46	737,05
Above Rs. 5 lakhs and upto Rs. 25 lakhs	17,185	1637,03	987,17
Above Rs. 25 lakhs and upto Rs. 1 crore	4,227	1840,67	1062,84
Above Rs. 1 crore and upto Rs. 5 crores	1,185	1490,22	1040,89
Above Rs. 5 crores and upto Rs. 10 crores ..	101	476,51	165,82
Above Rs. 10 crores and upto Rs. 25 crores ..	86	1209,87	297,83
Composite limit & unclassified	6,705		114,34
TOTAL	**4340,205**	**10586,52**	**5553,07**

* 'Banking Statistics'
Basic Statistical Returns (R.B.I.)
Volume—1 December 1972.

Distribution of credit according to organisation

10.2 Table B presents distribution of Scheduled Commercial bank credit according to organisation. 3031 lending accounts to the public sector carried an aggregate limit of Rs. 1658.94 crores, under which Rs. 675.04 crores were drawn as on last Friday of December 1972. 763 accounts of Public and Private limited companies managed by Government carried a drawing of Rs. 108.29 crores ; 37,630 accounts relating to Public and Private limited companies, other than Government owned and/or managed, carried a drawing of Rs. 2541.87 crores.

TABLE B

DISTRIBUTION OF OUTSTANDING CREDIT* OF SCHEDULED COMMERCIAL BANKS ACCORDING TO ORGANIZATION**

(As on the last Friday of December 1972)

(Amounts in lakhs of rupees)

Type of organisation	No. of accounts	Credit limit	Amount outstanding
(1)	(2)	(3)	(4)
PUBLIC SECTOR			
1. Central Government owned undertakings	1,656	864,79	393,68
2. State Governments	124	246,34	52,22
3. State Government owned undertakings ..	680	357,95	109,85
4. Quasi Government Bodies	571	189,86	119,29
CO-OPERATIVE SECTOR	3,183	235,29	95,67
PRIVATE SECTOR			
5. Public and Private limited companies managed by Govt.	763	151,92	108,29
6. Public and Private limited companies other than Govt. owned and/or managed companies and corporations	37,630	4445,88	2541,87
7. Partnership, Proprietory concerns, Joint families, Associations, Clubs, Societies, Trusts and Groups	250,924	2670,65	1320,64
8. Individuals	119,850	474,06	293,71
9. Unclassified	1,186	65,29	16,14
TOTAL :	**416,567**	**9702,03**	**5051,36**

* Relates to accounts with credit limit more than Rs. 10,000.
** 'Banking Statistics' Basic Statistical Returns (R.B.I.) Volume—1 December 1972.

Pattern of borrowings of large borrowers

10.3 Thanks to the assistance of the Reserve Bank, we have made a study of the pattern of borrowing arrangements of 341 borrowers taken at random as at 31 December 1973 out of over 1500 borrowers who enjoy credit limits of Rs. 1 crore and over (Table C). Out of 341 borrowers, 281 have borrowing limits of Rs. 1 to 3 crores, 29 borrowers limits over Rs. 3 crores and upto Rs. 5 crores, 14 borrowers over Rs. 5 crores, and upto Rs. 10 crores and, 17 borrowers have limits over Rs. 10 crores, 301 borrowers are in the private sector and 40 borrowers are in the public sector. 124 borrowers in the private sector and 21 borrowers in the public sector borrow from a single bank, and 177 borrowers in the private sector and 19 borrowers in the public sector borrow from more than one bank. Thus 145 borrowers in the public and private sectors borrow from a single bank, while 196 borrowers borrow from more than one bank. But, out of these 196 borrowing from more than one bank, only 32 cases—all of them in the private sector—are on consortium basis, *i.e.*, 16.33% of the cases are on consortium basis, and 83.67% of the cases are on the basis of multiple banking.

TABLE C

PATTERN OF BORROWING ARRANGEMENTS IN INDIA

Borrowers with sanctioned limits of Rs. 1 crore and over

(As at 31 December 1973)

Size of borrowing limits	Total Number	Number of borrowers borrowing from a single bank	Number of borrowers borrowing from more than one bank	Out of column (4) No. of cases on consortium basis	Out of Column 5	
					Those for term loans	Those for working capital
(1)	(2)	(3)	(4)	(5)	(6)	(7)
A. Borrowers with borrowing limits between Rs. 1 crore and Rs. 3 crores						
Total Number : of which	281	128	153	21	4	17
in Private Sector	253	113	140	21	4	17
in Public Sector	28	15	13	Nil	Nil	Nil
B. Borrowers with borrowing limits over Rs. 3 crores and upto Rs. 5 crores						
Total Number : of which	29	9	20	2	Nil	2
in Private Sector	23	7	16	2	Nil	2
in Public Sector	6	2	4	Nil	Nil	Nil

1	2	3	4	5	6	7
C. Borrowers with borrowing limits over Rs. 5 crores and upto Rs. 10 crores						
Total Number :	14	5	9	3	Nil	3
of which						
in Private Sector	12	3	9	3	Nil	3
in Public Sector	2	2	Nil	Nil	Nil	Nil
D. Borrowers with borrowing limits over Rs. 10 crores						
Total Number :	17	3	14	6	Nil	6
of which						
in Private Sector	13	1	12	6	Nil	6
in Public Sector	4	2	2	Nil	Nil	Nil
E. Total borrowers with borrowing limits of over Rs. 1 crore						
Total Number :	341	145	196	32	4	28
of which						
in Private Sector ..	301	124	177	32	4	28
in Public Sector ..	40	21	19	Nil	Nil	Nil

Pattern of multiple banking

10.4 We have also made a detailed analysis with reference to the pattern of multiple banking—of 136 large borrowers in the Private Sector. These 136 cases were selected at random on a sample basis and formed about 10% of the borrowers covered by the Credit Authorisation Scheme of the Reserve Bank of India. As the following Table D shows 53 out of 136 borrowers (40%) deal with a single bank, 72 (53%) deal with 2 to 4 banks, and the remaining 11 (7%) deal with 5 banks and more. Of the 83 borrowers dealing with more than one bank, only 17, about one fifth are on consortium basis.

TABLE D

PATTERN OF MULTIPLE BANKING OF 136 BORROWERS IN THE PRIVATE SECTOR

(As at 31 December 1973)

Number of banks with which borrowers deal	With limits between Rs. 1 to 3 crores	between Rs. 3 to 5 crores	between Rs. 5 to 10 crores	Rs. 10 crores and above	Total Number
1 bank	48	5	—	—	53
2 - 4 banks ..	52	10	7	3	72
5 banks & more	7	2	—	2	11
Total	**107**	**17**	**7**	**5**	**136**

CHAPTER 3

GUIDELINES FOR SHARING OF ADVANCES AND CONSORTIA FORUMS

Consortium Lending — Spectra of informed opinion

Culture of banking

11.1 The foregoing study sets out in bold relief the imperative need to elevate multiple banking into the plane of consortium lending, not as an expedient under conditions of resources constraint, but as a culture and philosophy of banking, for all larger advances, in the public and private sectors, in domestic and foreign business, in term lending as well as in working capital finance. The Group is satisfied that evolution to consortium lending will not detract from competitive innovations that have always to be the hall mark of any progressive industry. Indeed it can lead to the pooling of expertise, geographical presence and the total upgrading of the lending and service capability of the entire banking system. It could lead to multilateral consortia over a wide range of commodities, industries and regions.

Opinion Survey

11.2 With a view to making specific recommendations on the terms of reference, the Group elicited the views of a cross section of informed opinion. An interesting spectrum of opinion was placed before the Group. While one eminent professor pleaded for bank lending to take a natural growth, free of guidelines or inhibitions, an executive in the public sector asked for jettisoning the "fictional" identities of the public sector banks and bringing the entire public sector banking into a single identity, at the same time making for national level specialisation of sectoral bank credit such as power consortium, agricultural consortium, etc.

While the representative of one public sector corporation gave a mass of reasons for dealing with just one bank—single charge on assets, efficient cash management, centralised purchases and sales, etc.—a represenative of another public sector corporation asked for freedom of choice for each public sector enterprise to choose its own banker or bankers as an elementary tool of management decision—freedom to change bankers, to enlist more bankers, without the tortuous process of prior consultation outside the corporation.

While one industrialist wanted consortium arrangement whereby the borrower deals with just one bank, the lead bank, not only at the

initiation of an arrangement but throughout the servicing of the bank credit, *i.e.*, one stop banking—on the lines of insurance cover from just one insurance company with the company itself effecting its own reinsurance, another industrialist insisted on his right to deal with as many banks as he chose, even to the point of different terms of business with each bank. He stated:

"Indeed we are operating with a wide spectrum of banks operating with different rates of interest and terms as to security. This does not particularly hurt business . . . . The existing flexibility and opportunity of individual approach should not be shut out on public policy grounds or on the idea that consortia are more advantageous."

"Banking means exercise of sagacity in assessment of creditworthiness on the part of the individual bank and its agent and any effort to lay down too rigid written procedures may subtract from the intiative of the banker and the opportunity to use the judgement to the advantage of the institution."

No diminution of borrower's interest

11.3 But the opinion was near unanimous, that shift to consortium lending should not lead to diminution of borrower's interest, his choice of bankers, his ability to share business in a manner that will subserve his competitive need, his ability to lead business to the bank that has the organisational and operational competence, the bank that understands the complexities of business and brings to bear a flexible approach, his ability to lead the foreign exchange business in particular to the bank that has not only the requisite expertise, but that quotes the most favourable rate of exchange, etc. The Group fully endorses this view. A strong plea was made that multiple banking should not lead to delay in decision making, in the consummation of procedural formalities or in the completion of documentation. It was represented that in spite of the refinements of inter-institutional approach in the matter of lending, decision making was fraught with considerable delay, one member or other of the inter-institutional group took his own time to decide, devised his own form of appraisal, asked for separate discussion outside the inter-institutional meeting, insisted on his own type of documentation and his own pre-sanction legal scrutiny, etc. One borrower in the Public Sector availing loans from international consortia submitted that his corporation executed just one document in favour of the term lending institutions and commercial banks abroad. If consortium lending by commercial banks in India should become an effective instrument of optimum application of lending resouces of the banking system, pre-sanction dialogue, post-sanction documentation and post-documentation operations must be governed by an informed approach on the part of the constituent units of commercial banking system.

Independent examination not to be stifled

11.4 On the part of commercial banks, it was submitted that while admittedly documentation must be made uniform, and the system of joint appraisal should become more the rule than the exception, independent examination of the proposition by each participating bank should not be stifled, and the application of the collective expertise of the participating banks should not be detracted, so long as points of elucidation are taken up collectively. The Group concurs with this view.

Timely association of commercial banks

11.5 In the matter of term loan participation by commercial banks with term lending institutions, a plea was made by a banker, that participating commercial banks should be involved even at the outset in the inter-institutional appraisal of major projects, instead of the commercial banks being called in to share, well after the primary decision is taken. The Group endorses this view.

Limits vs. no limits

11.6 As to the guidelines which would foster effective sharing of banking business in the public and private sectors between banks, the evidence varied from, recent experience of excruciating resources constraint leading inevitably to participative banking without the Group having to lay down specific guidelines, to the laying down of mandatory quantitative ceiling for lendings to a single borrower by any one bank—as a percentage of owned funds of each bank, as a percentage of its deposits or as a percentage of its advances.

One banker argued that there need be no limit on a bank's credit to a single borrower; what was necessary was the appraisal by each bank of its own position industrywise and or commoditywise. Factors making for safety or appropriateness of the amount of an advance are not alike for different borrowers. Any limitation in the amount would appear to be too simple a device for a growing industry and a growing economy.

Another banker, again rejecting quantitative limitation, opined that circumstances such as the type of business, the location of the industry and the bank's own interest in the project and the area should govern the limit of an advance. A bank having special interest or responsibility in an area might well be justified in lending beyond a quantitative ceiling, however well conceived the ceiling be, while the same bank may not consider it justifiable to lend even a smaller amount to another industry in another area. The composite character of decision making should not be stifled by any quantitative ceiling.

Each bank's responsibility to lay down norms for itself

11.7 Another person of a considerable banking experience suggested that it is for each bank to lay down its own norms in regard to the maximum risk that bank could take, depending upon its own resources, its own portfolio in different sectors, and different areas. In a country of India's complex economic fabric, it would be retrograde to lay down a numerical formula. He thought that each bank should lay down its own norms empirically, allowing further experience to refine those norms, may be as judged by an independent authority like the central banking institution. What was necessary according to him was some balance between each bank's involvement in different sectors and different areas.

Same descipline for public and private sector borrowers

11.8 Some bankers expressed the view that a mere recommendation for participation could be no more than 'soft' guidelines and called for mandatory sharing of advances, the suggested cut off point for sharing ranging from Rs. 75 lakhs to Rs. 25 crores. Some bankers suggested higher cut off points for advances to public sector industries, while some others argued that the credit discipline was the same whether in private or public sector, and hence no case for differentiation between the private and public sector borrowers.

Sharing existing accounts

11.9 Most bankers recommended sharing of even existing larger advances.

Rs. 3 crores limit

11.10 One industrialist of considerable experience suggested sharing of advances in excess of Rs. 3 crores.

Spirit more than quantum

11.11 One banker suggested that the spirit of participation should not be sacrificed at the altar of quantitative limitation. What is important is the culture and philosophy of sharing between banks. So long as a banker shares an advance with one, two or more bankers, the share of the prime or lead bank should not be limited to any arithmetical proportions. For example, if it is a credit limit of Rs. 10 crores and, any norm or formula or guideline would limit the bank's lending to say Rs. 5 crores, the norm ,formula or guideline should not stand in the way of the bank lending, say Rs. 6 crores and sharing the balance of Rs. 4 crores with one or more banks.

Guidelines for Sharing of Advances :

Willingness to contribute to the Group

12.1 The Group recognises that laying down any quantitative limits, beyond which participation between banks should be made mandatory, may raise a host of problems. The banking industry has itself to rise to a higher plane of refinement and accept participation as a means of healthy growth of banking. As Mr. Michael Blanden says in the context of international consortia : "It has had to be learnt by experience that a successful joint operation cannot be achieved simply by setting up the machinery. It certainly requires some agreed common point of view towards the objectives and targets of the joint operation among the member banks, a willingness sometimes to forgo business and to contribute to the group, and success in acquiring effective management with a reasonable degree of independence to run the consortium."* The path to participation between banks cannot be stated more forcefully.

Limitations of solvency approach

12.2 It is not the thinking of the Group that what perhaps even the law making authorities have not laid down by way of limiting advances to a single borrower as a percentage of each bank's capital and reserves or otherwise can be attempted by the Group. Further, as rightly placed before the Group, limitation on lendings to a single borrower from the point of risk dispersal or commodity or geographical spread cannot be brought about by numerical exercise. The structure and ownership of banking in India has changed so vastly, the regulatory mechanism of banking has been so well evolved that the limitation of the lending capability as a percentage of the owned funds has no longer the same validity. There has in fact been a movement to overcome the limitations of the traditional "solvency" approach even in United States, where historically such limitation became most prevalent. In the early 60's, the Federal Reserve Governors initiated an extensive programme of research, covering problems of banking structure, environment and performance. "The term structure here refers to the number, organisation and relative size of banks ; the term environment means the entire sphere of inter-bank relationships covering organisational and demand influences ; and the term performance measures the extent of banking habit, the scope and quality of banking services and the pricing of these services."** The evidence led by several bankers on the need for discretion to relate the maximum lending to the merits of each case, and the fundamental rule of any such limitation devolving essentially on the Board of each bank, cannot be overstated.

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* 'Multi-Bank Consortia—Continuing role in international finance', *Financial Times* 9 January 1974.

** 'Banking Structure & Competition', *Commerce* 13 March 1965.

No instant sharing of existing advances

12.3 It is not the Group's intention that *all* existing advances beyond a certain limit should be taken up for review *instantly* with a view to sharing them with other banks. It has to be a gradual process phased over a period of time. It would, however, be prudent of every bank to examine its current portfolio of larger advances and make a conscious bid to share them with other banks. No flight of advances need be apprehended in such sharing, as in the mutuality of interest, what one bank sheds by sharing might be made good by inflow from other members of the banking system.

Sharing less than Rs. 1 crore not conceived

12.4 Also, while the size of a lending limit that is prudent to share would depend upon the size and other circumstances of each bank, the Group does not consider that sharing should be conceived in principle, in the case of larger banks, for less than Rs. 1 crore.

Sharing future advances is imperative

12.5 It would however be very desirable, indeed the Group would call it imperative, that at least future larger advances should be shared on consortium basis. It will be seen from Table A, paragraph 10.1, that aggregate outstandings in advances with limits of Rs. 1 crore and more amounted to Rs. 1504 crores in December 1972, out of the aggregate commercial bank advances of Rs. 5,500 crores, or approximately 27.34%. It is difficult to forecast the magnitude of fresh advances with limits of Rs. 1 crore and more likely to be granted in the current year or thereafter, but with a number of large industries being set up year after year, the volume of larger advances for new units should itself be appreciable. Likewise, further increases in the existing larger limits is also likely to be considerable. If we assume the proportion of larger limits as of 31 December 1972 as an indication, and if we assume the probable increase in the aggregate bank credit of commercial banks in the year 1974 to be of the order of Rs. 1000 crores, advances for about Rs. 270 crores could be readily brought under consortia. This itself could be a potential base for sharing between banks, at any rate to initiate the concept of consortium financing.

Limitation of advances to a single borrower to 1.5% of deposits

12.6 The Group at the same time would not like to stop with an appeal for sharing, and in that light examined various alternate formulae. The Group rejected any norm in relation to paid up capital and reserves in view of the special circumstances of this feature of banks in India. The most acceptable approach seemed to be a linkage with deposits of each bank. Evidence before the Group ranged from 1% of deposits upto

5% of the deposits of each bank. Of course no sanctity attaches to any percentage, but 1% appeared too restrictive and 5% too liberal. After taking into account various factors, the Group is of the view that limitation of advances to a single borrower in the public and private sectors to 1.5% of each bank's deposits in India from time to time (excluding deposits from other banks) would be a fair guideline. It is intended to be applied flexibly with the following qualifications :

(*a*) Special interests of each bank regionwise, industrywise or commoditywise, or customerwise could be accommodated in excess of the limit provided the spirit of participation is respected.

(*b*) Again, so long as the spirit of participation is fulfilled the sharing need not be arithmetically limited to the exact amount, vide example of sharing of Rs. 4 crores retaining Rs. 6 crores, paragraph 11.11.

(*c*) The application of the norm need not result in the vivisection of an advance to a number of banks according to the numerical formula. The Group accepts the plea on behalf of borrowers that even under consortium advance with a lead bank, borrowers should have the means of effective communication with their bankers and therefore the number of banks they should deal with should be limited to the circumstances of each case, say four or five, or six banks at the most, except in the case of term loan participations, where certain participating banks may participate in term loans, but may not care to take a share in the working funds limits as well.

The Group does not wish to impart any rigidity by relating the norm of 1.5% to the deposits of a bank at the end of a calendar year. Each bank can determine this position with reference to its deposits from time to time.

The Group also recommends that once an advance to a public or private sector undertaking is brought under consortium, the advance should continue to be shared according to the agreed proportion even if subsequent repayments reduce the total advance to within the 1.5% limit of the deposits of the lead bank or of any member bank of the consortium. An advance brought under consortium shall not be taken out of the consortium arrangement except with the consent of all the members of the consortium.

Likewise recovery of advances granted under consortium should be applied in reduction of the amount lent by each member bank of the consortium in the respective proportion, so that the lending and recovery process follows the same pattern as between member banks.

The Group further recommends that, although it has not rigidly laid down the maximum *amount* that any one bank can lend to any one borrower, every bank should examine its existing portfolio of large advances and take steps to share them with other banks over a period of time even if the amount of each such large advance is within 1.5% of that bank's deposits but the amount is large enough to warrant sharing, particularly where the aggregate of such large advances makes a good proportion of the bank's total advances.

12.7 *Exceptions :* The Group recommends that the limit of 1.5% will not apply to contingent liabilities such as letters of credit or guarantees or bills discounted under IDBI Scheme. It would also be within the discretion of the lead bank or a member of the consortium to grant temporary excesses within reasonable proportions to meet unforeseen exigencies of the borrowers' requirements, provided the bank granting such excess keeps the members duly informed and takes follow-up action for sharing the excess with other members.

Forum for Consortium Formation :

Bankers' Councils

13.1 The Group also examined the forum for consortium formation. One banker suggested a two-tier Bankers' Council, Four Regional Councils will be set up in the four major metropolitan centres of India with representation for banks with substantial operation in the area. One representative from each of the Regional Council will form the Apex Council at all India level, and these Apex and Regional Councils will emerge as the clearing house of participation formation between banks.

Like-minded banks

13.2 Another suggestion was an open channel of informal consultation between like-minded banks from time to time. A doubt was, however, expressed whether this could lead to an exclusivity of interest between groups of banks, and whether this would detract from the mutuality of interest that should govern between the units of the banking system. It was, however, conceded that whatever the forum of consultation, some degree of gravitation of like-minded banks was inevitable.

Calling in all banks

13.3 Another suggestion was to throw open each proposition to the response of banks generally. This did not appeal to the Group as such an approach would become too formal and impersonal reducing the borrower to anonymity.

Borrower's choice

13.4 A pertinent point in the examination of these or other alternatives is that the sharing in advances need not be the sole purview of the banks, the borrower must have freedom of choosing the lead bank as also associate banks of the consortium. At the same time the lead bank could guide the borrower by suggesting the members of the consortium, and it is to be expected that the lead bank whichever it be will impart a momentum to formation of consortia by associating as diverse a combination as possible. A professor of business management answering a question as to why participation between banks has not become popular observed :

"The main reasons for which participation has not become popular so far are apathy of bankers towards such arrangements in the absence of past experience and pressure for such co-operation. Advent of reorganisation of sick units and advances to very large industrial units has raised the issue. Other causes are :

(*a*) Income considerations
(*b*) Personal relations with the borrowers
(*c*) Generally easy fund position
(*d*) Varying facilities offered by bankers to individual clients.

... For generating such experiences some bankers have to set the ball rolling and practice participation successfully. A large bank along with some smaller banks would be an eminently suitable precedent for making others follow the example. Experimentation with a number of ways of participation would lead to evolution of suitable means."

Acceptance at policy and operating levels

13.5 The Group is confident that one or more of these variants of consortia forums can transform multiple banking into consortia banking, given the acceptance of the concept of consortia at the highest policy making level and at the operating level of the commercial banks. There is an informal association of credit officers of banks of different regions in the United States. They have a directory of credit officers with their personal names and telephone numbers which helps direct reference in an informal but effective way. Some such credit officers' club in the major banking capitals of India could also pave the way to mutuality of interest.

Chapter 4

EFFECTIVE PARTICIPATION—TYPES OF PARTICIPATION ARRANGEMENTS

Effective sharing

14.1 It was urged again and again before the Group by many bankers that the term "participation" should mean effective sharing of business of the borrowers concerned, and not a mere share in lending as in the case of food consortium. Stressing this point, one banker recorded his views as follows :

"To start with, a distinction needs to be made between (*I*) "sharing" of a borrower's credit requirements, (*ii*) "participating" with another bank in a borrower's credit requirements, and (*iii*) "consortium" or "syndicate" lending. "Sharing" normally connotes distribution of the total business amongst two or more bankers, each handling his portion of the business, inclusive of follow-up, on his own, though there may be an exchange of follow-up information by way of inspection reports at regular intervals . . . "Sharing" could be considered at any time—not necessarily, at the time of the grant of the original credit facility—say when a borrower's requirements increase because of expansion in business. Sharing of credit is normally accompanied by sharing of the borrower's ancillary business as well.

"Participation" is at times referred to loosely for "sharing". Strictly speaking, however, it connotes participation in a specified loan on the credit portfolio of another bank. Participation may be with or without risk, but would carry the same rate of interest and other terms of lending. Participation, where the participation is with risk, is normally resorted to in loans—term or demand—but not in cash credits or overdrafts. It does not associate with it the sharing of the borrower's ancillary business.

"Consortium" or "Syndicate" lending is undertaken at the time a credit facility is originallly considered and the credit facility required is of a magnitude which warrants more than one bank to be associated with it. It is implied that there has to be a "lead bank" which normally deals with the borrower, arranges the follow-up and the dissemination of all necessary information to all members of the Consortium or Syndicate."

Types of participation

14.2 Participation arrangements could broadly be classified as under :

(*a*) Consortia for joint financing of working capital requirements
(*b*) Consortia for joint financing of term loans

(*c*) Consortia under the auspices of the Reserve Bank like the food consortium
(*d*) Participation without a formal consortium arrangement
(*e*) Participation through Participation Certificates
(*f*) Participation through Bills.

Consortia for joint financing of working capital requirements

14.3 This arrangement should embrace joint processing of working capital requirements, the lead bank as approved by the members of the consortia and the borrower acting as a central point of credit appraisal. Preliminary examination by the members of the consortia and a preliminary joint discussion with the borrower shall pave the way for eventual decision by the consortium leader on behalf of the consortia. Each bank should go through its own process of decision making before ultimately committing to the lead bank. Once consortium decision is taken, the lead bank should centralise the total procedural requirements including obtention of credit authorisation clearance, etc.

From the point of view of the borrower, not only credit appraisal forms should be uniform for all banks but the documentation, including that for the sharing of security on *pari passu* basis, should be comprehensively brought under a single form, which the borrower signs for all the participating banks at the central point. Post credit follow-up is again done at a single point at a time—example, periodical inspection of stocks, etc., by different members of the consortia by turn with reports to participating members—but any eventual action of a major nature should be discussed between the consortium members and the follow-up action with borrower should be the responsibility of the consortium leader. The entire range of the borrower's banking business is shared between banks concerned on a pre-determined but flexible basis, having regard to the operational requirements of the business concerned.

Repeated reference was made by several banks to the need, for sharing between the participating banks, business relative to import, export, foreign remittance, etc. in as near proportion as possible. It was argued on behalf of the borrowers on the other hand, that in the sensitive area of foreign exchange business, with fluctuating exchange rates, and where time dimension is so important, borrowers should be free to choose the bank or banks that offer the best terms. The Group recognises the validity of both the points of view. No member of the consortia should be unreasonably denied his proportionate share of foreign exchange business and at the same time borrowers should not be compelled to divide the business sacrificing their own interest. Normally, it should be possible for the members of the consortium and the borrowers to agree upon an acceptable sharing of foreign exchange business. Should,

however, such an agreement not be reached under any circumstances, the bank/s through which borrowers elect to lead the business should share the profit arrising from the transaction with other banks of the consortium, after retaining an agreed percentage/amount for the service rendered by the bank/s handling the transactions; the Group recommends accordingly.

The Group also recognises that single point transactions, such as establishing letters of credit for import of capital goods, etc., may have necessarily to be led through one member of the consortium; in such cases too, the profit accruing from the transactions should be shared in the appropriate ratio between consortium members after deducting an agreed percentage/amount for the service rendered by the bank/s handling the transactions ; the Group recommends accordingly.

Banks must evolve common forms of credit appraisal and documentation for term loans and working capital finance. The Group recommends that member banks of a consortium should evolve a common form of credit appraisal acceptable to all of them and ensure that the borrower concerned does not have to submit appraisal to each bank in its own form. This rule should apply to all types of consortium advances, term loans, working capital finance, etc.

Likewise, the Group recommends that all banks of a consortium must evolve a common form of documentation so that the borrower need execute only one document of pledge/charge/undertaking agreement in favour of all the banks in the consortium. The members of the consortium may enter into an *inter se* agreement between themselves on their respective rights and obligations. The Group recommends accordingly.

This recommendation applies also to the appraisal forms and documentation in respect of lendings by the term lending institutions and the Life Insurance Corporation of India and the Unit Trust of India, if necessary, by amending their rules and regulations.

On a specific query from the Group, the Chairman of the State Bank of India readily agreed to share the forms and documents in use in his bank for the benefit of the members of the banking system and also agreed to the State Bank's participation in further refinements in common documentation. The Group considers it most important that the finalisation of joint documentation should be taken up the soonest. This will be the first shot in the arm for consortium banking. The Group recommends that a committee be appointed to draft standard forms of credit appraisal and documentation.

As to the terms of business, the consensus was that rates of interest and other major terms should be the same as between participating banks, although some industrialists saw no particular objection to varying terms of interest so long as such disparate terms were beneficial in their totality.

A question was also raised as to the time horizon of participation arrangement. While one view was that once a consortium was formed for a particular business, it would be the participating banks' responsibility to meet the genuine credit requirements from time to time, it was rejected by one observer as "consortium in perpetuity." A consortium arrangement should normally take responsibilities for meeting the due credit requirements from time to time; the Group does not consider this as a consortium in perpetuity. At the same time, consortium formation cannot become the equivalent of a credit charter. But, where necessary, it is up to the consortium to make adjustments within itself or by inducting more banks. It is also open to any participating member to withdraw for good reasons, provided other arrangements are made.

The question was raised whether it was open to the borrower to shift totally to a new consortia. The borrower's freedom to change is unfettered but it is to be expected that a different consortium would not accept the change-over except for good reasons and except with the concurrence of the existing consortium.

Consortia for joint financing of term loans

14.4 With the setting up of the Industrial Development Bank of India as the apex term lending institution of the country, major refinements have been brought into project appraisal and participation of term lending institutions, the Life Insurance Corporation of India, the Unit Trust of India and the commercial banks. The Group has already referred in the earlier paragraphs to the evidence laid before the Group for the meeting of minds between these institutions with special reference to appraisal and documentation. Reference has also been made to the observations of a banker that the commercial banks should be involved in the project appraisal early enough in the inter-institutional examinations.

National level expertise

14.5 Having regard to the expertise that a specialised agency like the IDBI has provided in the appraisal of term credit needs of large scale industry, a question was raised as to the possibility of setting up national level specialised institutions in other fields of consortia lending. As an example, the Agricultural Finance Corporation was cited for its

national level expertise in agricultural term lending. The difficulty of post-finance follow-up of bank credit to Electricity Boards for energisation of pump sets, etc., was also cited as a case in point. While the Group would welcome the ultimate evolution of national level expertise in major sectors of lendings, the Group considers it premature as of now to think in terms of setting up more institutions.

Also, in the present context of complex credit needs of the economy and the major Indian banks spreading their functional and geographical coverage on all-India basis, the Group does not consider it desirable that consortia of banks should be restricted either to the expertise of banks in specific commodities or specific areas. In fact the effect of consortia should lead to the upgrading of expertise of at least the major banks in the country in diverse fields, if not all the banks in the country ; the Group, however, concedes that banks participating in a consortium, particularly the lead bank must have the expertise and organisational presence necessary to handle the business concerned.

Food consortium

14.6 The magnitude and complexity of food procurement credit invests food consortium with an importance of its own. The Reserve Bank takes the lead in allocating the respective shares of various banks in the Public and Private Sectors. The Food Corporation maintains cash credit accounts with the State Bank of India against hypothecation of stocks. The participation is effected through the instrument of demand bills, which are endorsed by the State Bank of India in favour of other participating banks. For availing of refinance from the Reserve Bank, the concerned banks have to convert the demand bills into usance bills. The Reserve Bank constituted in December 1972 a Standing Committee of Bankers to ensure, *inter alia*, an equitable distribution of the food procurement credit. The Committee also looks into various procedural and operational aspects relating to the consortium arrangement.

Recently, some consortia arrangements have been concluded in respect of certain large lending limits at the initiative of the Reserve Bank of India. The Group trusts that such consortia arrangements will be brought about at the initiative of banks themselves, making the Reserve Bank the intervener of the last resort, just as it is the lender of the last resort. In particular, the Group recommends that eventually banks themselves should evolve arrangements for sharing bank credit to the Food Corporation of India, without the share of each bank having to be decided under the aegis of the Reserve Bank of India as heretofore.

Several bankers giving evidence before the Group claimed that the entire range of banking business of the Food Corporation of India

should be shared between the participating banks, instead of sharing only in the bank credit part of it. It was, however, pointed out on behalf of the State Bank of India that this matter had already been raised before the Standing Committee of Food Procurement credit, that State Bank of India had offered to share the entire range of business with other banks and that a representative of the State Bank of India had informed the Food Corporation of India that it was free to deal with other banks directly and place with them a proportionate share of other banking business. The Group recommends that every effort should be made to share between the participating banks the entire range of banking business relating to food procurement operations.

Participation without a Formal Consortium Arrangement :

14.7 In the case of multi-unit or multi-product companies, a borrower may be availing of credit limits from different banks allocated on functional basis i.e. one bank providing production finance, another sales finance, etc., on product basis or on geographical basis. In such cases, there may not be any formal consortium arrangement. While the Group sees no objection to the arrangements of this type, it would like to emphasise the need for each of the financing banks getting a view of the total financial position of the company. A system should be evolved for:

(*i*) periodical exchange of essential information between financing banks, from time to time ;

(*ii*) review of borrower's performance through periodical inter-institutional meetings ; and

(*iii*) joint review of credit requirements of the borrower when the limits become due for renewal or when a substantial increase in the limit is sought or the borrower's performance shows signs of deterioration.

Multiple banking, i.e., where a number of banks finance a borrower without any formal or informal consortium or sharing arrangements and without proper procedure for periodical consultation amongst the financing banks is, in the Group's view, not desirable and should be discouraged.

Participation through Participation Certificates

14.8 Participation Certificate (P. Certificate) is a comparatively new instrument in India. Through this instrument, a bank sells to a third party a part or all of an advance made by it to a borrower. Though P. Certificates can be issued 'with recourse' or 'without recourse', no bank in India seems to have so far issued certificates without recourse.

In terms of the instructions of the Reserve Bank of India, the P. Certificate scheme is operative on an experimental basis.

Some bankers who gave evidence expressed the view that P. Certificates, as now existing in India, are only deposits in a different form. The money which otherwise would come to the banking system as short-term deposits, at the rates of interest prescribed by the Reserve Bank, is converted into P. Certificates at a much higher rate. In order to ensure that P. Certificate is really an instrument of participation, sale of such certificates to non-banks should not be permitted. On the other hand Life Insurance Corporation of India has claimed that its unique position as a mobiliser of savings places it on a special footing. While the Group does not wish to go into the merits of these arguments, it is of the view that Participation Certificates play a useful role in bridging short term liquidity disparities between different banks and to this extent the growth of participation certificates between financial institutions approved by the Reserve Bank should not be discouraged.

Participation through bills

14.9 The Working Group on Enlarging the Use of Bills of Exchange as an Instrument of Credit and Creation of the Bill Market commended the use of usance bill as a means of participation so that a single institution could lend out the entire requirements of a borrower by way of bills of appropriate maturities and enable other institutions to participate in the finance, in an indirect way, by purchasing some of these bills. It further suggested that a system could be devised whereby bills of shorter maturities could be taken up by banks and those of the longer maturities by term lending institutions.

One banker has suggested that "where risk participation is not sought by the primary lending institution, the introduction of bills of exchange accepted by the lending bank which it could re-discount with other interested institutions can usefully be considered. As flexibility will be the essential feature, a bill of exchange drawn on and accepted by the primary lending institution would be a more appropriate form of an instrument than a participation certificate. Such bills of exchange can be bought by interested institutions, and they will, in effect, be taking up a banker's acceptance without concerning themselves with the details of the underlying transaction. This can be brought about by the lending institution supplementing its loan agreement with the customer with bills of exchange to be drawn on the bank with fixed usances corresponding to the repayment schedule.

"Such instruments in the form of banker's acceptances will be readily taken up by way of investment by institutions with surplus liquidi-

ty. The institutions so taking these instruments can also re-discount them with other institutions when they want to get the funds released. This may, in turn, lead to the emergence of a secondary bill market analogous to the Discount Houses in London. There may also be scope for the operation of Discount Brokers . . .

"The waivement of stamp duty on bills of exchange in respect of these special instruments might also prove as an incentive for their gaining popularity.

"Insurance companies, who are potentially big investors, may be able to interest themselves to a significant extent in these instruments, if these instruments carrying the acceptance of a bank can be brought within the scope of "Approved Securities" under the Insurance Act."

The Group agrees that participation through the introduction of bills of exchange accepted by the lending bank could become a convenient mode of short term participation under certain circumstances and recommends that, apart from the growth of the Bill Market Scheme, system of participation through bills of exchange accepted by the lending bank may also be introduced. The Group also recommends that stamp duty on such bills of exchange may be waived as an incentive for the growth of participation through bills.

CHAPTER 5

SHARING OF ADVANCES TO PUBLIC SECTOR UNDERTAKINGS

Pattern of Advances to Public Sector Undertakings

Public sector undertakings

15.1 Participation arrangements for public sector undertakings are of special importance in view of their magnitude and complexity of operations.

The public sector undertakings functioning under corporate form consist of Central Government undertakings (both statutory corporations and companies), State Government undertakings other than Electricity Boards, Government companies as defined in the Companies Act and State Electricity Boards, Road Transport Corporations and such other organisations.

An analysis of existing banking arrangements in the public sector

15.2 Certain data pertaining to cash credit limits sanctioned by scheduled commercial banks to public sector undertakings as on 31-3-73 have been examined through the courtesy of the Reserve Bank of India. The table E below presents the aggregate limits made available by scheduled commercial banks (i.e., the State Bank of India group, the 14 nationalised banks, the foreign banks and the non-nationalised Indian scheduled commercial banks) to Central Government undertakings, State Government undertakings excluding Electricity Boards and to State Electricity Boards:

TABLE E

LIMITS SANCTIONED TO PUBLIC SECTOR UNDERTAKINGS

(as on 31 March 73)

(in crores of rupees)

	Central Govt. under-takings*	Percent-age to total	State Govt. under-takings excl. Elect. Boards	Percent-age to total	State Elect. Boards	Percent-age to total	Total of all public sector under-takings	Percentage to total
State Bank of India Group ..	601.31	79	141.11	46	41.23	20	783.65	61
Nationalised Banks	129.32	17	140.81	46	150.98	72	421.11	33
Foreign banks ..	29.08	4	5.31	2	2.00	1	36.39	3
Non-nationalised Indian Scheduled Commercial banks	2.91	—	15.43	6	15.73	7	34.07	3
Total	762.62	100	302.66	100	209.94	100	1275.22	1 00

* Excludes advances to Food Corporation of India.

The aggregate credit limits sanctioned by the State Bank of India group to the Central Government undertakings constitute 79% of the total limits granted by the entire banking system. The relevant percentage in respect of the State Government undertakings (excluding Electricity Boards) is 46% and, State Electricity Boards 20%. 61% of the total credit to Public sector goes from the State Bank of India group.

Industrywise outstandings under advances by the commercial banking system

15.3 The Bureau of Public Enterpises submits to the Parliament an Annual Report on the working of Industrial and Commercial Undertakings of the Central Government. The latest available report relates to 1972-73. The total outstandings under cash credits and bank overdrafts at the end of the latest available three years in respect of the Cenral Government undertakings were.

31-3-1971 ..	Rs. 305 crores
31-3-1972	Rs. 458 crores
31-3-1973 ..	Rs. 595 crores

These figures represent actual outstandings under cash credits—limits sanctioned would be more; for instance, Table E in para 15.2 places the total credit limits, excluding advances to Food Corporation of India, as on 31-3-1973 as Rs. 762.62 crores. The total limit as on that date for the Food Corporation of India was Rs. 440 crores. Therefore, the total sanctioned credit limits by the banking sector for the Central Government undertakings may be taken as Rs. 1202.62 crores. Of these total limits, limits for Rs. 252 crores only have been authorised against guarantees given by the Central Government.

The total outstandings of Rs. 595 crores under cash credit as on 31-3-1973 may be broadly broken up into Rs. 216 crores relating to enterprises producing goods and Rs. 379 crores relating to those rendering services, of which the outstandings of the Food Corporation of India alone accounts for Rs. 279 crores. Groupwise outstandings are as under :—

Enterprises producing goods:

Steel	Rs. 39 crores
Mines & Metals ..	Rs. 26 crores
Petroleum	Rs. 17 crores
Chemicals	Rs. 21 crores
Heavy Engineering ..	Rs. 49 crores
Medium & Light Engineering	Rs. 45 crores
C/O	Rs. 197 crores

	B/F Rs. 197 crores
Transportation equipment	Rs. 11 corers
Consumer goods ..	Rs. 8 crores
Total ..	Rs. 216 crores

Enterprises rendering services:

Trading & Marketing ..	Rs. 366 crores
Transport services ..	Rs. 9 crores
Contract & Construction services	Rs. 2 crores
Rehabilitation of sick industries	Rs. 2 crores
Total	Rs. 379 crores

Pattern of multiple banking

15.4 Table F below indicates the pattern of multiple banking by the Central and State Government undertakings and the State Electricity Boards as on 31-3-1973:

TABLE F

TABLE SHOWING THE PATTERN OF MULTIPLE BANKING OF PUBLIC SECTOR UNDERTAKINGS

(as on 31 March 1973)

No. of banks with which the undertakings deal	Central Government undertakings	State Government (excluding Electricity Boards) undertakings	State Electricity Boards
1 bank	63	136	1
2-4 banks	24	37	6
5 banks and above	2	5	8
	89	178	15

Of the 282 Government undertakings 200, nearly 70%, deal with just one bank.

Advances to Central Government Undertakings

Guidelines issued by the Central Government

15.5 From time to time the Central Government has been issuing guidelines and instructions on banking arrangements and financing of working capital requirements of public sector undertakings. Copies of Office memoranda No. F. 11(1)-BC/64, dated 11th March, 1964, No. 2(32)/65-FI dated 16th March 1967, No. BPE/1(49)/Adv(F)/71 dated 24th June 1971 and No. F.7(4)/BO/III/72, dated 22nd May 1972, which are relevant have been reproduced as Annexure II to this report. Under the latest operating instructions, the Central public sector undertakings are required to follow the principles briefly outlined below :

(*i*) a new public sector undertaking is free to deal with any of the public sector banks ;

(*ii*) every undertaking should, as far as practicable, deal with only one public sector bank ;

(*iii*) for additional working capital requirements, an existing undertaking should approach its principal banker in the first instance ; when that bank finds it difficult to provide the additional finance from its own resources, it will, in consultation with the undertaking, initiate arrangements for participation with other public sector banks ;

(*iv*) different units of multi-unit undertakings may have cash credit arrangements with different public sector banks ; and

(*v*) transfer of entire account from one public sector bank to another should be made only with the Bureau's concurrence.

As a result of above instructions Central public sector advances are heavily concentrated at the State Bank of India.

Freedom to choose banks

15.6 Banks outside the State Bank group have unanimously stressed the need to lift the present guidelines of the Bureau of Public Enterprises which tend to heavily concentrate public sector accounts at the State Bank of India. The Chairman of the State Bank of India has in his evidence welcomed the participation of other banks in credit to public sector undertakings in the existing accounts as well as new accounts, but gave an instance of State Bank's insistence on certain financial discipline having been circumvented by another bank snatching the account.

Apart from their claim for a share in the public sector accounts, the nationalised banks feel that there has not been equitable distribution

of public sector business between various banks, particularly foreign exchange business of canalising agencies. The progressive canalisation of trade particularly import-export trade through public agencies has invested the question of sharing of public sector business with added importance. These banks have urged a revision of the guidelines issued by the Bureau of Public Enterprises to reflect more fully the nationalisation of major Indian Banks. The Group got the impression during its discussion that the Government will not be averse to reviewing the entire position. In fact, some relaxation made in the last few years is a recognition of this fact. The Group is of the view that the time is ripe for placing public sector undertakings on par with private sector undertakings in regard to their banking arrangements—their choice of bankers, their freedom to transfer accounts from one bank to another, their freedom to enter into consortium arrangement, etc. An appropriate revision of the Bureau of Public Enterprises guidelines is called for.

Views of public sector representatives

15.7 The Group discussed this question with several representatives of public sector undertakings most of whom expressed the view that there should be no restriction on choice of bankers by public sector undertakings. Such restrictions sometimes resulted in their losing the benefit of the expertise of different banks in various fields. They also conceded that there could be operational problems arising out of dealing with more than one bank such as allocation of securities to different banks, and detracting from centralised cash management system. These problems are not insurmountable in our opinion and could be solved through mutual discussions when the consortium approach is adopted.

The Group's recommendations

15.8 The Group agrees that there is no longer any case to treat public sector corporations differently from private sector corporations in the matter of their banking arrangements. It has been widely accepted that management of public sector corporations should be on business lines with their internal lines of control, checks and balances under professional expertise. The involvement of the Bureau of Public Enterprises in the banking arrangements does not seem to be necessary any longer. The Group recommends that the guidelines issued by the Bureau of Public Enterprises be revised

(*i*) to permit public sector undertakings including canalising agencies to deal with any bank/s of their choice operating in India and to transfer accounts from one bank to another ; and

(*ii*) to desire public sector undertakings having multiple banking arrangements to bring them under consortium arrangements.

Advances to Central Government Undertakings

Application of BPE guidelines

16.1 The evidence laid before the Group brought out that State Government undertakings are not governed by the instructions issued by the Bureau of Public Enterprises, unless such guidelines are adopted by the concerned State Government. Some representatives of State Government enterprises who met the Group, stated that they had no restrictions in regard to the choice of bankers and this matter was entirely left to be decided by their managements. The Group welcomes this position and recommends that instructions, if any, issued by the State Governments following the adoption of Bureau of Public Enterprises guidelines, may be withdrawn. The Group further recommends that the larger advances to these undertakings be brought on a consortium basis for the mutual benefit of the banking system as well as the undertakings.

Bank credit to Electricity Boards

16.2 As regards the State Electricity Boards, the data given in table 'F' indicates that they are generally being financed by more than one bank. The Group is of the view that, in order to ensure better co-ordination, funds for meeting their working capital requirements may be made available on a consortium basis, after examining their overall financial position and assessing the need-based character of their requirements. Loans for financing rural electrification schemes, being of a specialised nature, may, where the requirements are large, be made on participation basis, preferably by banks having adequate branch network in the area of the project, and in collaboration with the Rural Electrification Corporation and/or the Agricultural Finance Corporation.

CHAPTER 6

PARTICIPATION FOR REVIVAL OF SICK UNITS

Reasons for sickness

17.1 The Group believes that the constructive part of banking endeavour should be to detect insipient sickness well on time through appropriate post credit monitoring rather than allowing industries to go chronically sick and thereafter concert measures to revive or rehabilitate them. With this in mind, the Group made a study of information available with the Reserve Bank of India in respect of some sick units, to identify the major causes of sickness. These could broadly be classified as under :

(*i*) Lacunae in the basic plan for establishment of the project, *eg*.,

(*a*) incorrect assessment of marketability of the product ;

(*b*) heavy expenditure on fixed assets, infrastructure and research and development activities, not warranted by the volume of operations and financial resources ; and

(*c*) wrong choice of the process of manufacture or the plant

(*ii*) Delays in execution of the project with consequent increase in the project cost and interest burden for long gestation period.

(*iii*) Difficulties in obtaining raw materials and power at reasonable cost arising out of Government action, canalisation of imports, international shortages, etc.

(*iv*) General recession in industry and lack of local demand, leading to the sale of products abroad at unremunerative prices.

(*v*) Slump in export market due to various reasons such as development of competition from other countries, uncertain political conditions in importing countries, bottlenecks in transport, difficulties in finalisation of trade agreements, etc.

(*vi*) Pricing policy of Government in respect of certain products.

(*vii*) Financial difficulties arising out of diversion of short-term funds for non-current uses, investment of borrowed funds in

associate concerns, accumulation of stocks, slow realisation of book debts, escalation in operating costs, heavy overheads resulting from inefficient management or under-utilisation of capacity due to strikes, lockouts, etc.

(*viii*) Misappropriation or misutilisation of funds by the management.

(*ix*) Lack of technical and managerial competence.

(*x*) Short-sighted policies followed by the management in regard to declaration of dividends, inadequate build-up of reserves and lack of proper attention to modernisation and renovation.

Factors other than finance

17.2 It is common knowledge that any dosage of financial assistance cannot make the patient recover unless it is accompanied, if not preceded by competent technical and managerial support for recovery. A decision has to be taken by the bank when sickness becomes evident, whether mere financial assistance would do or whether further financial help should be considered only after a specialised institution like the Industrial Reconstruction Corporation of India (IRCI) unravels the basic deficiencies of the unit and chalks out a positive programme of rehabilitation, or the bank invites other competent professional experts to make a comprehensive study. From the point of view of a commercial bank, where revival/rehabilitation becomes inevitable, a reliable assessment of the possibility of revival/rehabilitation should be taken up through the expertise of the banks already lending to the sick units or specialised consultants from outside or the IRCI or all of them.

17.3 It was brought to the notice of the Group that when a unit, financed by a number of banks, became sick, there was a tendency on the part of banks which had better security to take care primarily of their own interest, instead of a total view of the industry as a whole. The Group agrees that the health of the total unit is far more paramount than the interest of some of the connected banks, and the financing banks must take a total view of the industry even at a sacrifice in some measure of their own interest. Participation may also be necessary where more than one bank finance different units of the same company, one unit of which has become sick. The banks financing the healthy unit have to participate in their own interest in the revival of the sick unit so that sickness of one unit does not endanger the position of the company as a whole.

The Group does not however consider the time ripe for fresh banks joining existing banks of a sick unit in rehabilitating it. A suggestion was

made that perhaps banks could consider allocation of some funds specifically for revival of sick units. Banks are already supporting the IRCI. Banks being already involved in functional and geographical diversification, the time is not ripe for them for setting aside any funds specifically for the revival of the sick units.

Role of IRCI in revival of sick units

17.4 At present, the main institution in India which is engaged in rehabilitation of sick industrial units is the IRCI. It provides financial aid to sick units in participation with banks and term lending institutions, supplies managerial aid and technical assistance from within and outside, and also acts as administrators of certain sick units. Its operation is however mostly confined to West Bengal and it appears that the IRCI is proposing to start its offices at other centres. The Group welcomes such a proposal and hopes that its expertise and experience would be made available to banks in different parts of the country.

Abrogation of existing claims

17.5 It has been brought to the notice of the Group that often provisions for rehabilitation of sick units, their nationalisation or reconstruction set aside the secured claims of banks, converting a secured creditor into an unsecured creditor. While the Group concedes that a reconstruction may involve freezing of banks' claims, or the claims being even written down as a total financial readjustment which alone could pave the way to reconstruction, any such reconstruction must have regard to the fundamental nature of a secured credit, and secured debts should not be placed on par with or inferior to unsecured debts. The Group recommends that the recognition of this position is a must to encourage banks to take normal banking risks in the development of the economy.

It has also been brought to the notice of the Group that the abrogation of security or freezing of banks' claim has been applied even to working capital lendings backed by marketable securities. Thus, in an undertaking the goods forming part of bank's security have been converted into finished product and sold, and sale proceeds so realised have been applied not in reduction of dues to the bank, but for other purposes. The Group recommends that any such application of funds must not be allowed and any provision that permits such application must be reviewed and revoked.

Chapter 7

ACKNOWLEDGEMENTS

18. The Study Group wishes to place on record its grateful thanks to Dr. R. K. Hazari, Deputy Governor, Reserve Bank of India, for his inspiring inaugural address which has been of invaluable guidance in the deliberations of the Group. The Group also wishes to place on record its grateful thanks to the Reserve Bank of India, the Agricultural Finance Corporation, the Industrial Reconstruction Corporation of India, and the Bureau of Public Enterprises for making available data of considerable interest.

The Group also wishes to place on record its grateful thanks to the bankers and industrialists in the public and private sectors, representatives of term lending institutions, Government officials, Presidents of Chambers of Commerce and Industry, Professors and business executives for placing their considered views before the Group.

The Chairman and the Members of the Group would like to pay a special tribute to Shri K. B. Chore, Member Secretary, for the enormous pains he took for arranging the working of the Group and for the experience and knowledge he brought to bear on the subject of study.

The Study Group wishes also to express its grateful thanks to Shri A. K. Bhuchar, Joint Chief Officer, Department of Banking Operations and Development, and Shri A. Raman, Director, Credit Planning Cell, Reserve Bank of India for participating in the Study Group's meetings at our invitation and contributing so much for formulating the Group's thinking.

Last but not the least, the Group wishes to place on record its warmest appreciation of the excellent assistance rendered by Shri C. Lakshmaiah, Shri V. S. Vartak and Shri N. V. Wadekar in the wide gamut of the Group's study.

Chapter 8

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Dimensions of participation

19.1 The Group looks upon participation as a dynamic concept, not an exigency, a concept that can promote collective application of banking resources to the optimum development of the economy. In the last few years, banking trends have witnessed the swing of the pendulum from embarrassing excess liquidity to excruciating credit stringency, a sharp shift from competitive bid to win borrowers to shying away from them to the point of virtually freezing their drawing limits. While a diverse economy of India's vastness, often aggravated by external forces, may not escape extreme swings even at quick intervals, the banking system has to bring about deliberate refinements in its approach and operations that will fuse the disparate liquidity position of different banks into a regulated credit flow. Participation should be accepted as a culture and philosophy of banking. The Group is satisfied that evolution of consortium lending will not detract from competitive innovations that have always to be the hallmark of any progressive industry. Indeed it can lead to the pooling of expertise, geographical presence, and the total upgrading of the lending and service capability of the entire banking system. It could lead to multilateral consortia over a wide range of commodities, industries and regions. Consortium lending would be valid not only for large scale lending, but also for area development, participation in credit to agriculture and small scale industry, in backward regions, in pre-export credit, in the development of tea industry, etc.

(Paragraphs 8.1, 8.3, 11.1)

No diminution of borrowers' interest

19.2 But the Group agrees that shift to consortium lending should not lead to diminution of borrower's interest, his choice of bankers, his ability to share business in a manner that will subserve his competitive need, his ability to lead business to the bank that has the organisational and operational competence, his ability to lead foreign exchange business in particular to a bank that has not only the requisite expertise, but that quotes the most favourable rate of exchange, etc.

(Paragraph 11.3)

Sharing of advances to public sector undertakings

19.3 The Group is of the view that there is no longer any case to treat public sector corporations different from private sector corporations in the

matter of banking arrangements. It has been widely accepted that management of public sector corporations should be on business lines with their internal lines of control and checks and balances, under professional expertise. The nationalisation of 14 major Indian banks in the year 1969 has also changed the historical context of the substantial volume of public sector business being concentrated with the State Bank of India group. The progressive canalisation of trade, particularly import-export trade, through public agencies has invested the question of sharing of public sector business with added importance. The Group got the impression during its discussions that the Government will not be averse to reviewing the present position of Bureau of Public Enterprises guidelines. In fact some relaxations initiated in the past few years is a recognition of this fact. Some public sector accounts have in fact been shared between banks since the constitution of the Study Group. The involvement of the Bureau of Public Enterprises in the banking arrangements of public sector corporations does not seem to be necessary any longer. The Group recommends that the guidelines issued by the Bureau of Public Enterprises be revised

(*i*) to permit public sector undertakings including canalising agencies to deal with any bank/s of their choice operating in India and to transfer accounts from one bank to another or from one group of banks to another group of banks ; and

(*ii*) to desire public sector undertakings having multiple banking arrangements to bring them under consortia arrangements ;

(Paragraphs 15.6, 15.7, 15.8)

Advances to State Government undertakings

19.4 The evidence laid before the Group brought out that the State Government undertakings are not governed by the instructions issued by the Bureau of Public Enterprises, unless such guidelines are adopted by the State Governments concerned. The Group recommends that instructions, if any, issued by the State Governments following the adoption of Bureau of Public Enterprises guidelines may be withdrawn. The Group recommends further that the larger advances to these undertakings be brought on consortium basis for the mutual benefit of the banking system as well as the undertakings.

(Paragraph 16.1)

Bank credit to State Electricity Boards

19.5 As regards the State Electricity Boards, the data given in table 'F' indicates that they are generally being financed by more than one bank. The Group is of the view that, in order to ensure better co-

ordination, funds for meeting their working capital requirements may be made available on a consortium basis, after examining their overall financial position and assessing the need-based character of their requirements. Loans for financing rural electrification schemes, being of a specialised nature, may, where the requirements are large, be made on participation basis, preferably by banks having adequate branch network in the area of the project and in collaboration with the Rural Electrification Corporation and/or the Agricultural Finance Corporation.

(Paragraph 16.2)

Future large advances should be shared

19.6 The Group considers it imperative that future large advances in the public and private sectors should be shared between banks on a consortium basis. While the size of a lending limit that is prudent to share would depend upon the size and other circumstances of each bank, the Group does not consider that sharing should be conceived in principle, in the case of larger banks for less than Rs. 1 crore. The Group is of the view that limitation of advances to a single borrower in the public and private sectors to 1.5% of each bank's deposits in India from time to time (excluding deposits from other banks) would be a fair guideline. It is intended to be applied flexibly with the following qualifications:

(*a*) Special interests of each bank region-wise, industry-wise or commodity-wise, or customer-wise could be accommodated in excess of the limit, provided the spirit of participation is respected.

(*b*) Again, so long as the spirit of participation is fulfilled, sharing need not be arithmetically limited to an exact amount, vide example of sharing of Rs. 4 crores retaining Rs. 6 crores (Paragraph 11.11).

(*c*) The application of the norm should not result in the vivisection of an advance to a number of banks according to the numerical formulae. The Group accepts the plea on behalf of borrowers that even under consortium advance with a lead bank, borrowers should have the means of effective communication with their bankers and, therefore, the number of banks they should deal with should be limited to the circumstances of each case, say four or five, or six banks at the most, except in the case of term loan participations, where certain participating banks may participate in term loans, but may not care to take a share in the working funds limits as well.

(*d*) The limit of 1.5% will apply only to loans and cash credits and bills discounted and purchased. It will not apply to

contingent liabilities, such as letters of credit or guarantees or bills discounted under the IDBI scheme.

(*e*) To impart further operational flexibility it should be within the discretion of the lead bank, or a member bank of the consortium where the circumstances so warrant to grant temporary excess to meet the unforeseen exigencies of the borrowers' requirements provided the bank granting such excess keeps the members duly informed and takes follow-up action for sharing the excess with other members.

The Group does not wish to impart any rigidity by relating the norm of 1.5% to the deposits of a bank at the end of a calendar year. Each bank is to determine this position with reference to its deposits from time to time.

The Group also recommends that once an advance to a public or private sector undertaking is brought under consortium, it should continue to be shared according to the agreed proportion even if subsequent repayments reduce the amount of advance to within 1.5% of the deposits of the lead bank or of any member bank of the consortium.

Likewise recovery of advances granted under consortium should be applied in reduction of the amount lent by each member bank in the respective proportion.

The Group further recommends that every bank should examine its existing portfolio of lage advances and take steps to share them with other banks over a period of time even if the amount of each such advance is within 1.5% of that bank's deposits but the amount of advance is large enough to warrant sharing, particularly where the aggregate of such large advances makes a good proportion of the bank's total advances.

(Paragraphs 12.4, 12.5, 12.6, 12.7)

No instant sharing of existing advances

19.7 It is not the Group's intention that *all* existing advances beyond a certain limit, should be taken up for review *instantly* with a view to sharing them with other banks. It has to be phased over a period of time. It would, however, be prudent of every bank to examine its current portfolio of larger advances and make a conscious bid to share them with other banks. No flight of advances need be apprehended in such sharing, as, in the mutuality of interests, what one bank sheds by sharing might be made good by inflow from other members of the banking system.

(Paragraph 12.3)

Effective sharing of total business of borrower

19.8 The Group recommends that sharing of advances should be effective and should embrace the total range of a borrower's business, including the foreign exchange business, subject to operational requirements of the business concerned. Where it is not practicable to share any business or should no agreement be reached between the members of the consortia and the borrowers on the sharing, such business may be led through the lead bank or any other bank/s acceptable to the borrowers and consortia members subject to the resulting profit being shared between the banks, after deducting an agreed percentage/amount for the service rendered by the bank/s handling the transactions.

(Paragraphs 14.1, 14.3)

Sharing the business of Food Corporation of India

19.9 Despite the magnitude and complexity of food procurement credit, the Group recommends that eventually the food consortium arrangement should be forged between banks themselves, and the total banking business of the Food Corporation should be shared between participating banks, as far as may be possible. The other consortia arrangements formed at the initiative of the Reserve Bank should also eventually become voluntary arrangements evolved by the financing banks.

(Paragraph 14.6)

Multiple banking

19.10 The Group recommends that where multiple banking arrangement is called for due to the special position of a large enterprise to meet the the credit needs of its different products or different units in different parts of the country, a system should be evolved for

(*i*) periodical exchange of essential information between the financing banks ;

(*ii*) review of borrower's performance through periodical inter-institutional meetings ; and

(*iii*) joint review of credit requirements of the borrower when the limits become due for renewal or when a substantial increase in the limits is sought, or the borrower's performance shows signs of deterioration.

(Paragraph 14.7)

Joint processing/appraisal

19.11 The Group recommends that consortia financing should be based on joint processing/appraisal of credit requirements, the lead bank

as approved by the members and the borrower acting as a central point of credit appraisal. Preliminary examination by the members of the consortia and a preliminary joint discussion with the borrower should pave the way for eventual decision by the consortium leader on behalf of the consortia. Each bank should go through its own process of decision making before ultimately committing to the lead bank. Once consortium decision is taken, the lead bank should centralise total procedural requirements including obtention of Credit Authorisation clearance, etc.
(Paragraph 14.3)

Adoption of common forms of appraisal and documentation

19.12 The Group recommends that member banks of a consortium should evolve a common form of credit appraisal acceptable to all of them, and that the borrower concerned should not be called upon to submit appraisal to each bank of the consortium in its own form.

The Group also recommends that all banks of a consortium must evolve a common form of documentation so that the borrower need execute only one document of pledge/charge/undertaking/agreement in favour of all the banks in the consortium. The members of the consortium could enter into an *inter se* agreement between themselves on their respective rights and obligations.
(Paragraph 14.3)

Drafting of common forms of appraisal/documentation

19.13 The Group recommends that the drafting of common forms of appraisal and documentation should be taken up the soonest possible by an appropriate committee.
(Paragraph 14.3)

Co-ordination of post-credit follow-up

19.14 The Group recommends that post-credit follow-up should be done at a single point at a time—example, periodical inspection of stocks, etc., by different members of the consortia by turn with reports to participating members—but any eventual action of major nature should be taken up with the borrower by the consortium leader.
(Paragraph 14.3)

Common form of documentation by term lending institutions

19.15 The Group recommends that even in regard to term lending by inter-institutional group, common form of appraisal and common form of documentation should be evolved. At the same time independent examination of the proposition by each participating bank/institution should not be stifled, and the application of the collective expertise of participating banks/institutions should not be detracted, so long as points of elucidation are taken up collectively. It is also desirable that participating commer-

cial banks are involved even at the outset in the inter-institutional appraisal of major projects instead of the commercial banks being called in to share, well after the primary decision is taken.

(Paragraphs 11.4, 11.5)

No consortia on mere commodity or area specialisation

19.16 In the context of complex credit needs of the economy and the major Indian banks spreading their functional and geographical coverage on an all India basis, the Group does not consider that bank consortia should be restricted either to the banks with commodity specialisation or area coverage.

(Paragraph 14.5)

Change of consortium

19.17 A consortium arrangement should normally take responsibility for meeting the due credit requirements of the borrower from time to time, but the Group does not conceive this as a consortium in perpetuity. Consortium formation cannot become the equivalent of a credit charter. But where necessary it is up to the consortium to make adjustments within itself or by inducting more banks. The borrower should likewise be free to change the consortium of banks for good reasons but any such change could not be conceived without the concurrence of existing consortium.

(Paragraph 14.3)

Forum of contact for consortia formation

19.18 The Group examined several alternative forums of contact between banks for forming consortia such as, Bankers' Councils, like-minded banks, banks operating in a region, etc. But apart from agreement between banks *inter se*, borrowers' freedom of choice of lead bank and associate banks should be taken into account. It is also to be expected that the lead bank, whichever it be will impart a momentum to formation of consortium by associating as diverse a combination of banks as possible. The Group stresses the importance of the acceptance of consortia principle at the highest policy making level as also at the operating level of commercial banks.

(Paragraphs 13.1, 13.2, 13.3, 13.4, 13.5)

Participation Certificates

19.19 While consortia banking should be through sharing of the business of a borrower, the Group considers that participation through participation certificates has a role in meeting temporary liquidity disparities between banks, and to this extent the growth of participation certificates between financial institutions approved by the Reserve Bank should not be discouraged.

(Paragraph 14.8)

Participation through bills

19.20 Participation through bills could also become a convenient mode of participation under certain circumstances. Apart from the growth of the Bill Market Scheme, the Group recommends introduction of bills of exchange accepted by the lending bank for rediscount with other interested institutions, as a further measure of meeting temporary liquidity requirements.

The Group considers waivement of stamp duty on bills of exchange as a necessary incentive for the growth of participation through bills.

(Paragraph 14.9)

Participation for revival of sick units

19.21 The Group sets great store by the detection of insipient sickness well on time through appropriate post-credit monitoring rather than allowing industries to go chronically sick and then concert measures for revival/rehabilitation.

Where revival/rehabilitation becomes inevitable a reliable assessment of the possibility of revival/rehabilitation should be taken up through the expertise of the banks already lending to the sick units or specialised consultants from outside or the IRCI, or all of them. Based on acceptable feasibility, banks already financing the sick units should proceed to find the financial requirements for revival along with specialised agencies like the IRCI. The banks must bring to bear a unified approach which will lead to the revival/rehabilitation of the sick unit, without one or more banks having better security taking a separate view of their own interests to the detriment of the sick unit as a whole and therefore to the detriment of the other banks involved. In particular, if one bank finances a healthy unit of a sick industry it must take into account the interest of banks financing the unhealthy unit of the same industry, as any such restrictive view might jeopardise the industry itself.

The Group does not, however, consider the time ripe for fresh banks being inducted to go along with the existing banks of a sick unit in the matter of revival/rehabilitation.

A suggestion was made that banks could perhaps consider allocation of some funds specifically for revival of sick units. Banks are already supporting the working of the IRCI. Banks being already involved in functional and geographical diversification, the time is not ripe for their setting aside any funds specifically for the revival of sick units.

(Paragraphs 17.1, 17.2, 17.3, 17.4)

Abrogation of existing claims of banks

19.22 It has been brought to the notice of the Group that often provisions for rehabilitation of sick units, their nationalisation or reconstruction set aside the secured claims of banks, converting a secured creditor into an unsecured creditor. While the Group concedes that a reconstruction may involve freezing of banks' claims, or even the claims being written down as a total financial readjustment which alone could pave the way to reconstruction, any such reconstruction must have regard to the fundamental nature of a secured credit, and secured debts should not be placed on par with or inferior to unsecured debts. The Group recommends that the recognition of this position is a must to encourage banks to take normal banking risks in the development of the economy.

(Paragraph 17.5)

Freezing of banks' claim on working capital lendings

19.23 It has also been brought to the notice of the Group that the abrogation of security or freezing of banks' claim has been applied even to working capital lendings backed by marketable securities. Thus, in an undertaking the goods forming part of bank's security had been converted into finished products and sold, and sale proceeds so realised have been applied not in reduction of dues to the bank, but for other purposes. Likewise sale proceeds of finished products forming part of the security to the bank have been sold and sale proceeds applied for purposes other than reduction of the debt due to the bank. The Group recommends that any such application of funds must not be allowed and any provision that permits such application must be reviewed and revoked.

(Paragraph 17.5)

Sd/ G. Lakshminarayanan
Chairman
Sd/ R. C. Shah
Sd/ S. Padmanabhan
Sd/ O. P. Gupta
Sd/ R. Pichai
Sd/ G. N. Ranade
Sd/ S. V. S. Raghavan
Sd/ P. K. Nanda
Sd/ N. Rajan
Sd/ K.B. Chore
Member-Secretary

Madras,
16 July, 1974.

ANNEXURE I

LIST OF INDUSTRIALISTS, BANKERS AND OTHER EXPERTS WITH WHOM THE GROUP HAD DISCUSSIONS

Name	*Institution*
I. *At New Delhi*	
Shri P. C. Chandhok	Hindusthan Commercial Bank Ltd.
Shri Rajan	Food Corporation of India
Shri Prakash Tandon	Punjab National Bank
Shri Ratnam	Delhi Cloth & General Mills Ltd.
Shri S. S. Shukla	State Trading Corporation of India Ltd.
Shri Inderjit Singh	Punjab & Sind Bank Ltd.
Shri M. L. Dhoot	New Bank of India Ltd.
Shri Nanda	Escorts Ltd.
Shri S. R. Mohindroo	Punjab National Bank
Shri D. N. Ghosh	Government of India, Department of Banking, Ministry of Finance
Shri D. N. Saxena	Government of India, Department of Banking, Ministry of Finance
Shri Ishwar Dayal	Institute of Public Administration
Shri M. Narasimham	Ministry of Finance, Government of India
Shri V. Balakrishnan	Indian Oil Corporation
Shri H. K. Gupta	Bharat Steel Tubes Ltd.
Shri R. P. Oberai	Oriental Bank of Commerce Ltd.
II. *At Madras*	
Dr. B. Natarajan	Institute of Techno-Economic Studies
Dr. L. C. Gupta	Institute of Financial Management and Research
Shri A. C. Muthia	Southern Petrochemical Industries Corporation Ltd.
Shri M. C. Sarin	Hindustan Aeronautics Ltd.
Shri S. Narayanaswam	Seshasayee Paper and Boards Ltd.
Shri D. C. Kothari	Kothari & Sons
Shri A. M. M. Arunachalam	Tube Investments of India Ltd.
Shri G. K. Devarajalu	Lakshmi Machine Works Ltd.
Shri K. Eswaran	Hackbridge-Hewittic and Easun Ltd.
Shri R. N. Ratnam	E. I. D. Parry Ltd.
Shri C. E. Kamath	Canara Bank
Shri Sundaram	Indian Overseas Bank
Shri S. Nagarajan	Andhra Bank Ltd.
Shri N. V. Bhat	Vijaya Bank Ltd.
III. *At Bombay*	
Shri Contractor	Hindustan Lever Ltd.
Shri S. C. Shah	Mukand Iron & Steel Co. Ltd.
Shri Jain	Kamani Engineering Co. Ltd.
Shri C. P. Shah	Premier Automobiles Co. Ltd.
Shri K. M. D. Thakersey	Industrialist
Shri M. S. Vartak	Kirloskar Oil Engines

Name	*Institution*
Shri H. K. Swali	Dena Bank
Shri P. F. Gutta	Union Bank of India
Shri A. Krishnaswamy	Bank of America
Mr. G. L. Jones	National & Grindlays Bank Ltd.
Dr. H. L. Hingorani	National Institute of Bank Management
Shri N. A. Soonawalla	Tata Sons Ltd.
Shri C. S. Venkata Rao	Industrial Development Bank of India
Shri S. D. Deshmukh	Unit Trust of India
Shri H. T. Parikh	Industrial Credit and Investment Corporation of India Ltd.
Shri B. C. Randeria	Life Insurance Corporation of India
Shri R. K. Talwar	State Bank of India
Shri P. Abraham	Maharashtra State Textile Corporation
Shri Seshadri	Maharashtra State Road Transport Corporation
Shri T. M. Venkataraman	Air India
Miss Caroline W. Child	First National City Bank
Shri R. M. Pradhan	Central Bank of India
Shri V. D. Thakkar	Bank of Baroda
Shri J. N. Saxena	Bank of India
Shri K. B. Damle	Bank of Maharashtra
Shri V. M. Bhide	Bank of Maharashtra

IV. *At Calcutta*

Shri B. S. Raghavan	Damodar Valley Corporation
Shri B. Mukherjee	Coal Mines Authority
Mr. Hedgson	Indian Aluminium Company
Shri A. Chaterjee	Jute Corporation of India
Shri Prasad	Heavy Engineering Corporation
Shri B. N. Khaitan	Williamson & Magor Ltd.
Shri Gupta	Duncan Bros.
Shri L. G. Ghose	Brooke Bond of India Ltd.
Shri B. K. Dutt	Banker
Shri V. R. Desai	United Commercial Bank
Shri Sen Sarma	United Bank of India
Shri S. K. Roy Choudhery	Chartered Bank
Shri A. Ghosh	Allahabad Bank

ANNEXURE II

CIRCULARS ISSUED BY GOVERNMENT OF INDIA REGARDING BANKING ARRANGEMENTS OF PUBLIC SECTOR UNDERTAKINGS

No. F.11(1)-BC/64
MINISTRY OF FINANCE,
Department of Economic Affairs

New Delhi, the 11th March 1964.

OFFICE MEMORANDUM

Subject : *Banking arrangements for local bodies, statutory authorities, Government corporations and Companies.*

The undersigned is directed to state that the Government of India have had under consideration the question of the banking arrangements of local bodies in Centrally administered territories, statutory authorities which derive the bulk of their income from Central Government grants or the proceeds of Central cesses, the corporations and companies wholly owned by Government or in which more than fifty per cent of the capital is held by Government. It has now been decided that in supersession of the orders contained in this Ministry's O.M. No. F. 4(171)FI/51 dated the 22ndOctober, 1962, but subject to any special provision in any Act of Parliament or of a State Legislature, the principles mentioned below should be followed.

(*i*) All local bodies should keep their funds with Government in a personal or other deposit account at a treasury or sub-treasury, but

(*a*) at any place where there is an office or establishment of a local body, but no treasury or sub-treasury, a current account with the State Bank of India or with any of its subsidiaries referred to in paragraph (*ii*) below or

(*b*) at any place where there is such an office or establishment but no treasury or sub-treasury and no office of any of the banks mentioned at (*a*) above a current account with one of the scheduled banks referred to in paragraph (*iv*) below

may be opened. If at any place where a local body has an office or is required to function, there is no treasury or sub-treasury and no office of any bank mentioned in sub-paragraph (*a*) or (*b*) above, (and if it is also proposed to open an account with any other bank which may be functioning locally) the orders of the local Government or administration should be obtained, before the proposed account is opened. The amounts deposited in various accounts outside the treasury or sub-treasury should be limited, in accordance with the orders of the authorities competent to prescribe limits for this purpose under the relevant statutes, bye-laws or regulations, to suitable ceilings which may be prescribed for this purpose. Any sums in excess of the limits fixed should be periodically withdrawn and credited to the local body's deposit account at the treasury or sub-treasury.

(*ii*) All statutory authorities, societies incorporated under the Societies Registration Act, 1860, and the universities or institutes of technology which derive the bulk of their income from Government grants or from cesses should, as far as possible keep their cash balances and funds with Government in a personal deposit or other account at treasury. If for convenience of day to day working they have to keep an account with a commercial bank, they may open a current account with one of the offices of the State Bank of India or of its subsidiaries, namely, the State Bank of Bikaner and Jaipur, Indore, Hyderabad, Mysore, Patiala, Saurashtra and Travancore.

(*iii*) Corporations and companies which are wholly owned by Government or in which Government owns more than fifty per cent of the capital should ordinarily maintain their accounts with the State Bank of India or any of its subsidiaries. Any surplus funds which are required to be invested with banks should also be invested in these banks.

(*iv*) If a branch of the State Bank of India or of any of its subsidiaries is not in existence at any place, at which any of the offices of the institutions mentioned in sub-paragraphs (*ii*) and (*iii*) above is located or has an office, branch or establishment, an account may be opened at that place with one of the scheduled banks. For this purpose, however, only a scheduled bank the deposits of which as shown in the last annual balance sheet are Rs. 10 crores or more should normally be chosen, and the question of opening an account with any other bank should be considered, only if no such scheduled bank has an office at the place at which the account is to be opened. An account opened with any bank other than the State Bank of India or any of its subsidiaries should ordinarily be only a current account. A ceiling for the amount to be held in such current account should be prescribed, and the bank should be instructed to remit, to some convenient account of the institution concerned with the State Bank of India or anyof its subsidiaries, amounts in excess of this ceiling at periodical intervals.

(*v*) The statutory rules, bye-laws, articles of association or other order should be amended suitably, wherever this may be necessary, so as to conform to the foregoing instructions.

2. The instructions contained in the foregoing paragraph will come into force with immediate effect so far as the opening of new accounts and the investment of fresh funds are concerned. Current accounts which are not authorised under these instructions, should be closed at an early date and the funds should be withdrawn and utilised in accordance with these orders. Any amounts already deposited with any bank, otherwise than in current account and otherwise than in accordance with the provisions of this O.M. need not be withdrawn immediately, but as and when the accounts mature for payment, or the accounts are due, the funds should be withdrawn and dealt with in accordance with the instructions contained in this Office Memorandum.

3. The provisions of this Office Memorandum will not apply to the Life Insurance Corporation, the Indian Airlines Corporation or the Air India Corporation, in view of the specialised nature of their business. The existing arrangements will continue in these cases and special orders will be issued separately if in relation to any institution this is considered necessary.

R. K. SESHADRI
Director (Banking and Insurance).

No. 2(32)/65-F. I.
MINISTRY OF FINANCE
Department of Co-ordination
Bureau of Public Enterprises

New Delhi, the 16th March, 1967.

OFFICE MEMORANDUM

SUBJECT : *Financing of Working Capital Requirements Public Sector Undertakings*

The question of providing working capital to the public sector enterprises has been engaging the attention of the Govt. for some time. While it is true that the case of each undertaking will have to be considered on its merits, the following guidelines are laid down which may assist the projects in assessing and meeting their working capital requirements :

(*a*) The Board of Directors in each case of each undertaking should determine the reasonable level of the working capital and review the position from time to time to ensure that the total investment in the working capital is kept as low as possible.

(*b*) In the first instance, the enterprises concerned should approach the State Bank of India for the cash-credit arrangements to meet the requirements of their working capital on the security of their current assets including stocks of stores, spare parts, raw-materials etc. According to the normal bank practices, the State Bank may ask for a certain margin while fixing the cash-credit limits.

(*c*) It would be necessary for the undertaking to find ways and means of raising the margin money. The State Bank of India should be requested to provide for the entire working capital needs. If necessary, the excess over the margin money could be covered by a guarantee from the Central Government.

(*d*) Whenever the total requirements of the working capital cannot be met by the cash-credit arrangements with the State Bank of India, the enterprises may approach the Government for short-term loans. Such requests would have to be examined vis-a-vis the position of internal resources of the undertakings.

(*e*) So far as the use of internal resources and in particular depreciation fund is concerned,this should in the first instance be utilised for meeting capital expenditure. While making a demand for additional funds capital expenditure, the internal resources including depreciation fund will, invariably, be taken into account.

(*f*) Where the undertakings are making losses, the amount of the loss sustained will also be met from internal resources in the first instance.

The Ministry of Industry etc. are requested to bring this to the notice of the Public Sector Undertakings.

Sd./ R. C. DUTT
Secretary to the Govt. of India and Director-General Bureau of Public Enterprises.

No. BPE/1 (49)/Adv. (F)/71
Government of India
Ministry of Finance
Bureau of Public Enterprises
(Finance Division)

New Delhi, the 24th June, 1971

OFFICE MEMORANDUM

SUBJECT : *Financing of working capital requirements of public sector undertakings*

A reference is invited to the Bureau of Public Enterprises O. M. No. 2(32)/65-F.I. dated the 16th March, 1967 on the subject indicated above. It was stated in that Office Memorandum that the public sector undertakings should approach the State Bank of India for cash credit arrangements to meet the requirements of their working capital. The question of reviewing this in the context of the nationalisation of fourteen major banks has been engaging the attention of the Government. It has now been decided that the public sector undertakings may adopt the following guidelines :—

(*i*) A new public sector undertaking will be free to deal with any of the public sector banks, namely, State Bank of India, its seven subsidiaries and the fourteen nationalised banks for financing its working capital requirements.

(*ii*) Every undertaking should, as far as practicable, have working capital requirements with only one public sector bank. In the case of a multi-unit undertaking, different units may have cash credit arrangements with different public sector banks, if it is found operationally convenient but such arrangement should be settled by the undertaking in consultation with the banks concerned.

(*iii*) If an existing undertaking needs additional working capital requirements, it should, in the first instance, approach its principal banker and if that bank finds it difficult to provide the additional finance from its own resources, it will, in consultation with the undertaking, initiate arrangements for participation with other public sector banks. If any special difficulty arises in arranging such participation the undertaking may approach the Bureau of Public Enterprises and the BPE may consult the Department of Banking for advice.

(*iv*) If an existing public sector undertaking wishes to transfer its entire account from one public sector bank to another it will first approach the BPE indicating the reasons for the proposed change. The Bureau will in its turn consult the Department of Banking for advice and give necessary direction in the matter to the enterprise concerned.

The Ministry of Industrial Development etc. are requested to bring this to the notice of the undertakings under their administrative control for information and necessary action.

Sd/- A. N. BANERJI
Additional Secretary and Director General, BPE.

No. F 7(4)/BO/III/72
Government of India
Ministry of Finance
Department of Banking

New Delhi, the 22nd May, 1972.

OFFICE MEMORANDUM

SUBJECT :—*Banking arrangements for Local Bodies, Statutory Authorities, Government Corporations and Companies*

A reference is invited to the Department of Economic Affairs, Office Memorandum No. F. 11(1)BC/64 dated the 11th March 1964 on the subject indicated above. It was stated *inter alia* in that O.M. that local bodies in centrally administrated territories, statutory authorities which derive the bulk of their income from Central Government grants on the proceeds of central cesses and corporations and companies wholly owned by Government of India or in which more than 51% of the capital is held by Government should, where Government treasury or sub-treasury does not operate deposit their surplus cash balances by opening a current account with the State Bank of India or with any of its subsidiaries. It has been decided in the context of the nationalisation of fourteen major banks that in partial modification of the O.M. dated the 11th March, 1964, referred to above, the principles mentioned below should be followed :—

(*a*) *Local Bodies/Statutory Authorities*

Where the existing rules permit the local bodies and statutory authorities to avail of the services provided by the banking system, they may adopt the following guidelines:

(*i*) A new local body/statutory authority referred to above will be free to choose any of the following public sector banks, namely, the State Bank of India, its seven subsidiaries and the fourteen nationalised banks.

(*ii*) Every local body/Statutory authority may also, as far as practicable, deal with only one public sector bank. If the local body/statutory authority has offices at different places, where for convenience of day-to-day working it is desired to have banking arrangements with any other public sector bank, it is open to that body/statutory authority to avail of such arrangements in consultation with its principal banker. If any special difficulty arises in working out such arrangement, it may approach the Department of Banking through the administrative Ministry concerned.

(*iii*) If an existing local body/statutory authority wishes to transfer its account from one public sector bank to another, it will approach the administrative Ministry concerned indicating the reasons for the proposed change. The administrative Ministry in its turn will consult the Department of Banking for advice before giving necessary directions in the matter.

(*b*) *Public Sector Undertakings*

In so far as Corporations and Companies wholly owned by Government or in which more than 51% capital is held by Government are concerned, it is hereby clarified that the existing instructions regarding financing of working capital requirements of the public sector undertakings contained in the Ministry of Finance, Bureau of Public Enterprises O.M. No. BPE/1(49)/ADV(F)/71 dated the 24th June, 1971, (copy enclosed) will also be applicable for availment of all other banking facilities. If any special difficulty arises in following such arrangements, the undertaking may approach the Department of Banking through the Bureau of Public Enterprises.

2. The statutory rules, bye-laws, articles of association or other orders should be amended suitably, wherever necessary.

3. The Ministry of Industrial Development etc. are requested to bring these instructions to the notice of all such bodies/public sector undertakings under their administritive control for information and necessary action.

Sd./- D. N. Ghosh
Director