

An agenda for action

The securities scam cannot be dismissed as a systems failure, says Uttam Gupta

OF the 107 specific recommendations of the JPC, the action taken report presented by the government sought to implement 87 fully and 14 partially. On the remaining six, the latter had a differing viewpoint. The impressive arithmetic was used by the finance minister to drive home the point that the government was indeed contemplating serious action.

Quite amazingly, the balance six recommendations relate precisely to the subject matters that became the focal point for embezzlement of funds on a monumental scale.

These include the ready-forward transactions, portfolio management scheme (PMS) of public sector undertakings, inter-bank security transactions through the brokers and the role of RBI nominees on the boards of commercial banks.

Unless various dimensions of the modus operandi employed to exploit or manipulate the loopholes in these areas, as recommended by the JPC are tracked, the government would remain susceptible to the charge that it is not quite serious. The reluctance to take cognisance of the fundamental issue of ministerial responsibility and accountability to Parliament, attempted exoneration of some key figures and virtual silence on the billion-dollar question of where the money went, clearly shows lack of sensitivity. The stalemate over the ATR may have ended with the government and the opposition striking a compromise deal, but, the key issues raised in the JPC report remain unaddressed.

A still bigger issue relates to the nexus the scam has with the overall health of the economy. It would be a serious mistake not to see this important connection. Consider the public sector enterprises whose surplus funds have propelled the wheels of the scam. The former have been found to lack money for investing in expansion, growth and modernisation for achieving the targets in vital areas like oil, gas, power, road, communication, fertilisers etc. Besides, there are a host of enterprises which are sick, can be turned viable through appropriate rehabilitation schemes, but, kept waiting between life and death for want of funds.

There is another category where the company management's economically viable expansion proposals as

well as funds (mainly by way of internal generation) to implement them have to wait because the government approval is not forthcoming.

Against this backdrop, the PSEs park their surplus funds (some times even borrowed money) with the commercial banks/finance companies under PMS at interest rates which they would never have even earned on their manufacturing operations and finally land up losing even the principal amount. It does not require much ingenuity to realise that the latter cannot afford to pay exorbitant interest rates of even above 30 per

not merely from the PSEs, but also, the huge deposits, insurance money, provident fund etc., of the general public in banks and FIs.

Since the balance sheet of a majority of the banks and the FIs is unimpressive (in the red in some cases) and they are under pressure to improve the position, they too are lured into the ring.

In the stock market, there is no magic wand that works. If someone gains, someone else has to necessarily lose or the potential gainer is merely a victim of a hoax. He is either saddled with fake banker's receipts

1993-94 and 1994-95 would have been much smaller or perhaps, no support might have been necessary. Besides enormous loss to the general public, both investing in shares as well as those keeping their deposits with the bank/FIs too, could have been avoided.

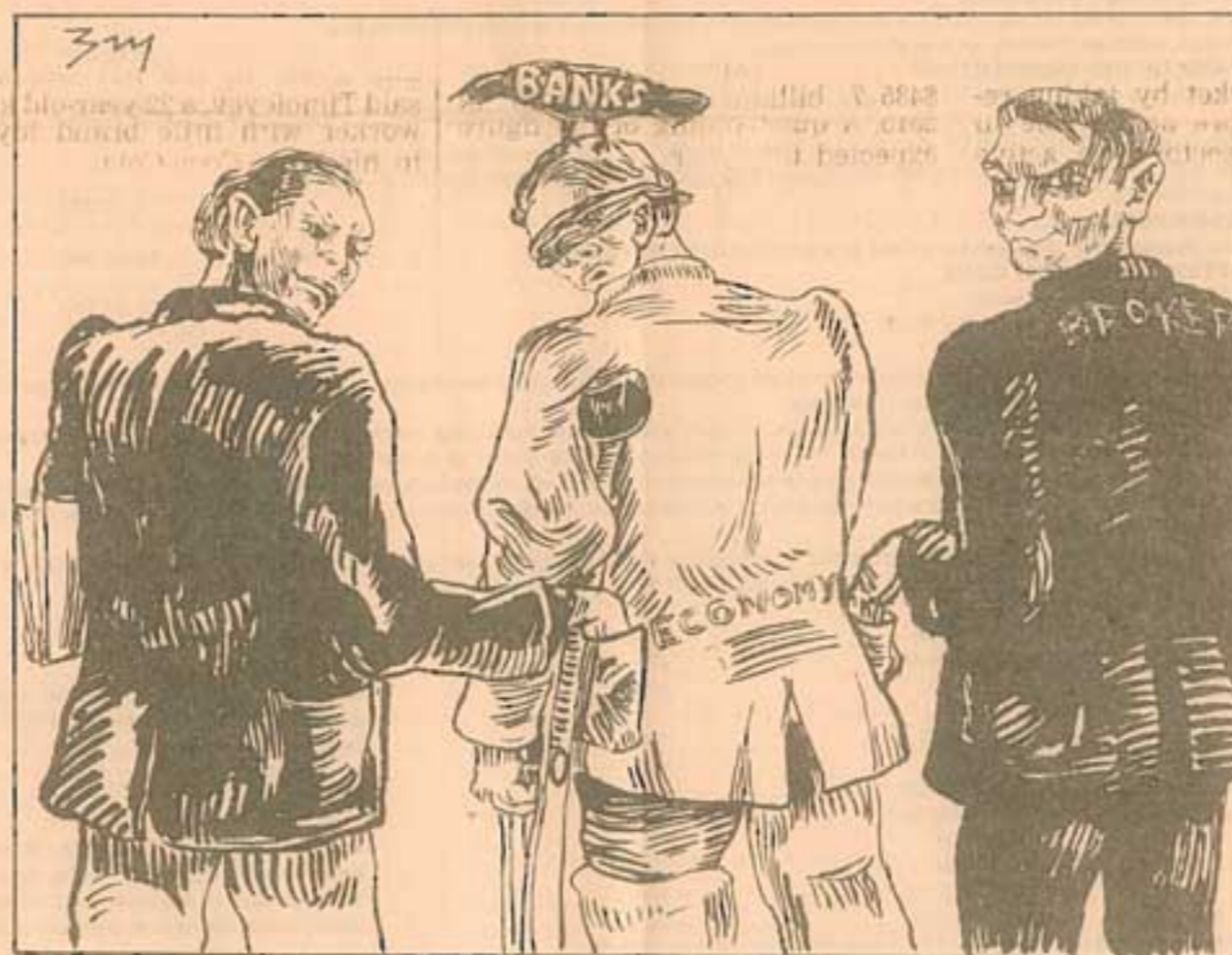
All this has serious macro-economic implications in terms of rising budget deficit, inflation, erosion of the saving and investment and a setback to development. To treat this as a systems failure would tantamount to travesty of the truth. Although, there may be a few lacunae here and there, the fact remains that in India we have the most comprehensive system of checks and balances. In fact, in PSEs, this even goes to the ridiculous point of keeping the CEOs busy for most of the time on meeting various stipulations of checks and balances from the internal auditors, CAG, concerned administrative ministries, Parliament and its various committees.

In respect of the banks too, fairly comprehensive control and monitoring mechanisms exist although for FIs they may not be as rigorous and effective. Consequently, it would be erroneous to put the onus of human mistakes and errors of judgement, besides deliberate acts of commission, on the system.

The ramifications of the securities scandal need to be addressed as a national challenge. Our goal has to be three-fold. First, to identify the ultimate beneficiaries and get back the money lost to the maximum extent possible. Second, to punish the offenders in a manner that the punishment provided is commensurate with the scale of offence perpetrated. Third, a certain measure of credibility to the principle of ministerial responsibility and accountability restored.

Something that has not so far come close to the eyes of the general public is inter-branch accounts of commercial banks involving a monumental sum of about Rs 270 thousand crores still pending reconciliation. This is despite the recommendation of the RBI committee that the entire reconciliation exercise be completed by the end of 1993-94.

Clearly, the possibility of loss of funds on an unprecedented scale is not ruled out and a grand father of the securities scam may already be in the making.



cent without getting involved in some dubious/ clandestine deal. Quite clearly, funds loaned out to any industry or even trading activity, could not generate yields high enough to enable the banks to service such costly deposits.

The funds have invariably found their way into financing purchase of shares/securities, mostly speculative, with the primary aim of making a killing on violently fluctuating market prices.

This is where the involvement of a few select brokers handling thousands of crores of bank money in security deals has come handy. And, once the system gets into the hands of few unscrupulous brokers, the tentacles spread to cover money originating

or the securities/shares promised against the same not delivered. All this is not possible without manipulating the stock market index to fairly high levels.

The lack of transparency in the stock market is exploited to the hilt to ensure that this arrangement works.

Unquestionably, the unprecedented loss of Rs 8,000 crore was an avoidable economic loss to the nation. PSEs could have used the money lost in the scam for augmenting their productive capacity and be helpful in preventing some of their fellow undertakings from going sick or rehabilitating those already sick.

But, for the loss in the scam, the support provided from the Union Budget to the commercial banks during