28

STANDING COMMITTEE ON FINANCE
(2005-2006)

FOURTEENTH LOK SABHA

MINISTRY OF FINANCE
(DEPARTMENTS OF ECONOMIC AFFAIRS, EXPENDITURE AND DISINVESTMENT)

DEMANDS FOR GRANTS
(2005-2006)

[Action taken by the Government on the recommendations contained in the Sixteenth Report of the Standing Committee on Finance on Demands for Grants (2005-2006) of the Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment)]

TWENTY EIGHTH REPORT

LOK SABHA SECRETARIAT
NEW DELHI

December, 2005/*Pausa*, 1927 (*Saka*)

TWENTY EIGHTH REPORT

STANDING COMMITTEE ON FINANCE
(2005-2006)

(FOURTEENTH LOK SABHA)

MINISTRY OF FINANCE
(DEPARTMENTS OF ECONOMIC AFFAIRS, EXPENDITURE AND DISINVESTMENT)

DEMANDS FOR GRANTS
(2005-2006)

[Action taken by the Government on the recommendations contained in the Sixteenth Report of the Standing Committee on Finance on Demands for Grants (2005-2006) of the Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment)]

Presented to Lok Sabha on 22.12.2005
Laid in Rajya Sabha on 22.12.2005

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

December, 2005/*Pausa,* 1927 *(Saka)*

COF No. 28

Price : Rs. 30.00

Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Eleventh Edition) and Printed by Jainco Art India, New Delhi.

CONTENTS

COMPOSITION OF STANDING COMMITTEE ON FINANCE—2005-2006

Maj. Gen. (Retd.) B.C. Khanduri — *Chairman*

MEMBERS

Lok Sabha

2. Shri Jaswant Singh Bishnoi
3. Shri Gurudas Dasgupta
4. Shri Bhartruhari Mahtab
5. Shri Shyama Charan Gupt
6. Shri Gurudas Kamat
7. Shri A. Krishnaswamy
8. Shri Bir Singh Mahato
9. Dr. Rajesh Kumar Mishra
10. Shri Madhusudan Mistry
11. Shri Rupchand Pal
12. Shri Danve Raosaheb Patil
13. Shri Shriniwas D. Patil
14. Shri K.S. Rao
15. Shri Jyotiraditya Madhavrao Scindia
16. Shri Lakshman Seth
17. Shri G.M. Siddeshwara
18. Shri Ajit Singh
19. Shri M.A. Kharabela Swain
20. Shri Vijoy Krishna
21. Shri Magunta Sreenivasulu Reddy

Rajya Sabha

22. Shri Murli Deora
23. Shri R.P. Goenka
24. Shri Jairam Ramesh
25. Shri M. Venkaiah Naidu
26. Shri Yashwant Sinha

27. Shri Chittabrata Majumdar
28. Shri S.P.M. Syed Khan
29. Shri Amar Singh
30. Shri C. Ramachandraiah
31. Shri Mangani Lal Mandal

SECRETARIAT

1. Shri John Joseph	—	*Secretary*
2. Dr. (Smt.) P.K. Sandhu	—	*Additional Secretary*
3. Shri A. Mukhopadhyay	—	*Joint Secretary*
4. Shri S.B. Arora	—	*Deputy Secretary*
5. Shri T.G. Chandrasekhar	—	*Under Secretary*

INTRODUCTION

I, Chairman of the Standing Committee on Finance having been authorized by the Committee to submit the Report on their behalf present this Twenty-Eighth Report on action taken by Government on the recommendations contained in the Sixteenth Report of the Committee (Fourteenth Lok Sabha) on Demands for Grants (2005-2006) of the Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment).

2. The Sixteenth Report was presented to Lok Sabha/laid in Rajya Sabha on 20 April, 2005. The Government furnished the written replies indicating action taken on all the recommendations on 22 July, 2005. The draft action taken report was considered and adopted by the Committee at their sitting held on 19 December, 2005.

3. An analysis of action taken by the Government on the recommendations contained in the Sixteenth Report of the (Fourteenth Lok Sabha) of the Committee is given at Appendix.

4. For facility of reference observations/recommendations of the Committee have been printed in thick type in the body of the Report.

NEW DELHI;
19 *December,* 2005
28 *Agrahayana,* 1927 *(Saka)*

MAJ. GEN. (RETD.) B.C. KHANDURI,
Chairman,
Standing Committee on Finance.

CHAPTER I

REPORT

This Report of the Standing Committee on Finance deals with Action Taken by the Government on the recommendations/observations contained in their Sixteenth Report (14th Lok Sabha) on Demands for Grants (2005-2006) of the Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment) which was presented to Lok Sabha and laid in Rajya Sabha on 20.4.2005.

2. Action taken notes have been received from the Government in respect of all the ten recommendations contained in the Report. These have been categorised as follows:—

(i) Recommendations/Observations that have been accepted by the Government:

Sl.Nos. 2, 5, 6, 7, 8, 10

(Para Nos. 18, 19, 20, 44, 45, 46, 52, 53, 58, 59, 60, 61, 68, 69, 70, 87)

(Total 6) (Chapter II)

(ii) Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies:

Sl.Nos. 3, 4

(Para Nos. 24, 25, 34, 35)

(Total 2) (Chapter III)

(iii) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee:

Sl.Nos. 1, 9

(Para Nos. 13, 14, 78)

(Total 2) (Chapter IV)

(iv) Recommendations/Observations in respect of which final reply of the Government is still awaited:

(Nil) (Chapter V)

3. The Committee desire that replies in respect of the recommendations contained in Chapter I should be furnished to the Committee expeditiously.

4. The Committee will now deal with the action taken by the Government on some of their Recommendations.

Department of Economic Affairs

Insurance Regulatory and Development Authority—Other Charges

Recommendation (Sl. No. 1, Para Nos. 13, 14)

5. The Committee observed that under the head IRDA—Other Charges, there had been no expenditure since 2003-04. They found that since 2002-03, the Authority started retaining fees and a percentage of premium income of insurance companies and incurred expenditure out of this. They also noted that there was a difference of opinion on location of the IRDA Fund between the Government of India and the IRDA. The Government of India finally created a relevant head under the Public Account of India and the IRDA was asked to transfer the money into this.

6. The Committee felt constrained to state that this issue was still alive when the Ministry of Law also furnished its opinion in the matter. Therefore, the Committee strongly recommended that the fund should be immediately placed in the Public Account of India and IRDA should draw amounts to discharge its functions from this fund. They wanted to be informed of the action taken in this regard within a period of three months.

7. While furnishing the action taken notes, the Ministry of Finance replied as follows:

> "On the advise of the Ministry of Law and the Department of Expenditure, this Ministry has requested the Insurance Regulatory and Development Authority (IRDA), time and again, to transfer the IRDA Fund into Public Account of India. Attention of IRDA has also been drawn to the Audit Para of AGCR and Recommendations of the Standing Committee on Finance in its 16th Report. However, the Fund is yet to be placed in Public Account of India. The IRDA was requested at the level of Secretary, Department of Economic Affairs to place the fund in the Public Account of India immediately. On the representation of the IRDA,

Hon'ble Finance Minister has directed that the matter may be re-examined in the Ministry of Law. The matter has, therefore, been referred to the Ministry of Law for legal advice."

8. The Committee are dismayed to note that the IRDA fund is yet to be transferred to the relevant Head created under the Public Account of India. The observations made in this regard by AGCR in its audit report and the Committee's recommendation for immediate transfer of the fund into the Public Account have not accrued the desired result. The Committee feel that to keep a watch on the expenditure of IRDA and to have its accounts audited, it is necessary to transfer its receipts to the Public Account. They, therefore, reiterate the need for taking appropriate action for transferring the Fund to the relevant Head of Account under the Public Account of India without further delay, from which the IRDA could draw the amounts required for discharging its functions and duties.

Department of Economic Affairs

Debts Recovery Tribunals

Recommendation (Sl. No. 5, Para Nos. 44, 45 and 46)

9. The Committee were concerned to note that as on 30th June, 2004, 64,941 cases were filed in Debt Recovery Tribunals (DRTs) involving an amount of Rs. 91,901 crore. Further they found that till 30th September, 2004 only Rs. 10,340 crore had been recovered and 29864 cases were still pending before DRTs.

10. In response to the emphasis made by the Committee on ensuring speedy disposal of cases the Government informed that the number of cases pending in the DRTs was declining. As informed, the number of cases pending was less then 500 in 8 DRTs and less than 1000 in 10 DRTs. The Committee were not satisfied with this reply. Contrary to the Government's claims, the Committee found that a large number of cases were lying in DRTs without being disposed off, involving huge sums of money. Further, the Committee observed that the functioning of DRTs was reviewed by the Government from time to time. They were informed that the Government might take a decision on opening new DRTs in future to dispose of the cases speedily, if it was deemed necessary. As regards the existing DRTs, the Committee noted that there were many vacant posts to be filled.

11. The Committee recommended that the Government should look into the specific problem of DRTs so that the huge backlog of cases

could be cleared expeditiously. The Committee further recommended that the Government should take advance action to fill up the vacant posts in the existing DRTs in consultation with Supreme Court. In the view of the Committee, the Government needed to undertake a thorough review of the pendency of cases in DRTs, vacancies in the existing DRTs and go ahead with creation of new DRTs where required.

12. While furnishing the action taken notes, the Ministry of Finance replied as follows:

> "The issue of speedy disposal of pending cases is being taken up with the Chairpersons of DRATs and Presiding officers of DRTs so that the number of pending cases can be reduced. A proposal for opening of new DRTs is also under active consideration of the Government. As regards the existing DRTs, it is stated that the four vacant posts of Presiding officers at Coimbatore, Jaipur, Chandigarh and Nagpur could not be filled up due to the stay on the selection process ordered by the Hon'ble Madras High Court. However, steps have been taken to get the stay order vacated so that the work of the Tribunals may not be hampered. Besides, in the DRTs where POs could not be posted because of the Courts stay on the selection process, additional charge has been given to other POs. The process for filling up of the anticipated vacancies likely to arise during the current year has been started, so that the vacancy can be filled without any delay.
>
> Further, a proposal to amend to DRT Act and DRT (Procedure) Rules to improve the recovery system is also under consideration."

13. The Committee learn from the reply of the Government that the issue of ensuring speedy disposal of pending cases has been taken up with the Chairpersons of DRATs and Presiding Officers of DRTs, and a proposal for opening of new DRTs was under active consideration. The Committee, while emphasizing on the need for speeding up these initiatives, also wish to be apprised of the details of the same.

14. In view of the huge backlog of cases pending with the DRTs which involve large amounts of money, the Committee feel that the Government must address the specific problems of the DRTs seriously. The Committee also reiterate the need for taking advance action for filling up the anticipated vacancies in existing DRTs, expediting the proposal for opening new DRTs and taking appropriate measures for having the High Court's stay orders on the

selection process of Presiding officers in DRTs at Coimbatore, Jaipur, Chandigarh and Nagpur vacated. The proposal to amend the DRT Act and DRT (Procedure) Rules, as intimated, may be brought in early so that the recovery and the system of recovery could be improved.

Department of Disinvestment

Policy on Disinvestment

Recommendation (Sl. No. 9, Para No. 78)

15. The Committee were informed that the Government had decided to consider the sale of minority share holding in profitable PSEs, modernize and restructure sick but potentially viable PSEs and sell chronically and terminally sick PSEs. In view of the Committee's repeated recommendations for preparation of disinvestment policy document to be discussed in Parliament, the Committee were given to understand that white paper on Disinvestment was under preparation and was expected to be tabled during the Monsoon Session of Parliament, 2005-06. The Committee recommended that the preparation of White Paper on Disinvestment might be expedited so that it could be laid before Parliament during the monsoon session, 2005-06.

16. In their action taken note the Ministry have replied as under:

> "Action is being taken to table the White Paper on Disinvestment of Central Public Sector Enterprises in the Parliament during the Monsoon Session 2005."

17. Further, on the issue of laying of White Paper on Disinvestment before the Parliament, the Ministry of Finance, Department of Disinvestment, while furnishing action taken statement on the recommendation of the Committee contained in their 23rd Report, in their letter dated 25.11.2005, have stated as below:

> "The matter of placing a White Paper on Disinvestment of CPSEs for information of the Parliament is under consideration of the Government. The White Paper would be a comprehensive document and detail the historical development of the disinvestments in CPSEs since 1991-92 and also deal with the implementation strategy in respect of the policy as enshrined in NCMP. After the White Paper is finalised and placed for information of the Parliament, the Government would take a view on whether a comprehensive document on disinvestments policy is required."

18. The Committee are constrained to note that the White Paper on Disinvestment, which has been identified by the Government as one of the thrust areas for implementation and was supposed to be tabled in Parliament during the Monsoon Session 2005-06, remains to be presented inspite of repeated recommendation made by the Committee and the commitments made by the Government in this regard. The Committee have now been informed by the Government, vide their communication dated 25 November, 2005 that the matter of placing a White Paper on Disinvestment of CPSEs for information of the Parliament is still under consideration. The Committee are of the opinion that unless the White Paper is approved by the Parliament, the disinvestments policy/programme will always remain opaque. They, therefore, reiterate that the Government should expedite the finalisation of the White Paper on Disinvestment and place it in the public domain.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation (Sl. No. 2, Para Nos. 18, 19 and 20)

The Committee observe that actual expenditure under this head has fallen short of revised estimates during the period 2002-03 to 2004-05. The reasons for shortfall, as explained by the Ministry in respect of the year 2002-03 was less receipt of bill than anticipated. In 2003-04, the expenditure was lower due to deferment of computerization of all Pay and Accounts Offices of the Civil Ministries since necessary hardware/software was not available with these Ministries.

The Committee do not accept this excuse for keeping budgetary allocations higher as the installation of necessary hardware/software should have been taken note of before going ahead with implementation of the proposed programme.

The Committee, therefore, recommend that the budgetary allocation should be made based on the actual requirements and available conditions to avoid savings of huge sums at the end. They would further like to be apprised of the details of expenditure incurred under this head during the year 2004-05.

Reply of the Government

(a) The observations and recommendations of the Committee (*vide* Para 18 to 20) have been noted for compliance.

(b) With respect to Para 20 of the Committee's observations, the details of expenditure under the Head 2052.00.090.10.00.28 (Secretariat-Professional Services) during the year 2004-05 in respect of Department of Expenditure is as follows. The BE under the head for the year was Rs. 13,75,000/- and RE Rs. 12,34,000/-.

(a)	Legal Charges	Rs. 1,77,700
(b)	Consultancy	Rs. 4,20,121
(c)	Remunerations	Rs. 2,82,510
	Total	Rs. 8,80,331

Recommendation (Sl.No. 5, Para Nos. 44, 45 & 46)

The Committee are concerned to note that as on 30th June, 2004, 64941 cases were filed in Debt Recovery Tribunals (DRTs) involving an amount of Rs. 91,901 crores. Further they find that till 30th September, 2004 only Rs. 10,340 crores have been recovered and 29,864 cases are still pending before DRTs.

The Committee are not satisfied with the reply of the Government with regard to speedy disposal of cases that the number of cases pending in the DRTs is declining. In 8 DRTs, there are less than 500 cases pending and in 16 DRTs, less than 1000 cases are pending. Contrary to this the Committee find that still a large number of cases are lying in DRTs without being disposed off, involving huge sum of money. Further, the Committee observed that the functioning of DRTs is reviewed by the Government from time to time. They have been informed that the Government may take decision to open up new DRTs in future to dispose the cases speedily, if it is deemed necessary. As regard the existing DRTs, the Committee note that all the Benches are not complete.

The Committee recommend that the Government should look into the specific problem of DRTs so that huge backlog could be cleared expeditiously. The Committee would further recommend that the Government should take advance action to fill up the Benches of existing DRTs in consultation with Supreme Court. In view of the Committee, the Government should undertake a thorough review of the pendency of cases in DRTs, vacancies in the existing DRTs and go ahead with creation of new DRTs where required.

Reply of the Government

The issue of speedy disposal of pending cases is being taken up with the Chairpersons of DRATs and Presiding Officers of DRTs so that the number of pending cases can be reduced. A proposal for opening of new DRTs is also under active consideration of the Government. As regards the existing DRTs, it is stated that the 4 vacant posts of Presiding Officers at Coimbatore, Jaipur, Chandigarh and Nagpur could not be filled up due to the stay on the selection process ordered by the Hon'ble Madras High Court. However, steps have been taken to get the stay order vacated so that the work of the Tribunals may not be hampered. Besides, in the DRTs where POs could not be posted because of the Court's stay on the selection process, additional charge has been given to other POs. The process for filling up of the anticipated vacancies likely to arise during the current year has been started, so that the vacancy can be filled without any delay.

Further, a proposal to amend the DRT Act and DRT (Procedure) Rules to improve the recovery system is also under consideration.

Recommendation (Sl. No. 6, Para Nos. 52 & 53)

It is seen that till March 2004, both public and private sector banks have attained only 15.41 and 15.81 per cent of net bank credit as advances to agriculture. The Committee are perplexed to find that still the target of 18 per cent seems to be out of reach of the banks. The same is the case with advances to weaker sections. The lending to weaker sections by banks (in public and private sector) is only 7.44 and 1.34 percent of net bank credit as on March 2004 as against the target of 10 percent. This leads to the conclusion that both public and private sector banks still feel shy to lend to these sectors. Only six banks *viz*. Allahabad Bank, Indian Bank, Indian Overseas Bank, Punjab National Bank, Syndicate Bank and State Bank of Patiala have been able to achieve the targets in respect of agriculture and weaker section lending out of 27 public sector banks. Among private sector banks, only Jammu and Kashmir Bank Ltd., United Western Bank Ltd., Bank of Punjab Ltd., Centurian Bank Ltd. and IDBI Bank Ltd., are above the target. Further, it is seen that the NPAs in agriculture advances by both public and private sector banks are lower *vis-à-vis* other sectors. Thus it shows that despite lower NPAs banks have not fulfilled their obligation in respect of targeted credit disbursement to agriculture.

The Committee take note of the measures taken by the Government/Reserve Bank of India to address the issue. However, they feel that firm implementation of these measures is very important to achieve the goal of smooth flow of credit to these sectors alongwith change in the mindset of bankers. They desire that the Government/ RBI should ensure that the banks are able to achieve the targets in a specified time frame. Besides, Government/RBI should see that the credit to these sectors increase in harmony with credit growth in other sectors. For this, there is a need to change the attitude of bankers as far as lendings to these sectors are concerned. The Government should evolve an effective mechanism to ensure that RBI's guidelines are strictly adhered to and banks do not deviate from the mandatory level of disbursement of credit to agriculture and weaker sections.

Reply of the Government

The Outstanding Credit to Agriculture by the Commercial Banks has increased from Rs. 64,723 crore as on the last reporting Friday of March 2002 to Rs. 1,03,839 crore and further to Rs. 1,34,485 crore as on the last reporting Friday of March 2004 and 2005, respectively. Further, though the public and private sector banks, as groups, have not achieved agricultural lending target of 18 percent, the outstanding advances to agriculture as percentage to NBC (Net Bank Credit) by public sector banks and private sector banks has shown a steady increase. This may be seen from the appended table:

Outstanding Agricultural Advances

(Rupees in crore)

As at end March	Public Sector Banks		Private Sector Banks	
	Amount	% of NBC	Amount	% of NBC
2002	58,142	14.8	6,581	8.5
2003	70,501	14.5	9,924	10.9
2004*	86,187	15.4	17,652	12.3
2005*	1,12,564	15.7	21,921	12.2

*Data are provisional.

The outstanding advances to Weaker Sections by Public Sector Banks and Private Sector Banks amounted to Rs. 54,105 crore (8.9% of NBC) and Rs. 1,593 crore (1.3% of NBC) respectively, as on the last reporting Friday of September 2004. The outstanding credit to Weaker Sections by the Commercial Banks has increased from Rs. 30,117 crore as on the last reporting Friday of March 2002 to Rs. 55,698 crore as on the last reporting Friday of September 2004.

Government of India and Reserve Bank of India are monitoring the performance of the banks in lending to agriculture and weaker sections on an on-going basis through regular returns as well as meetings with banks at various fora. Banks which fail to achieve the target/sub-targets under priority sector lending are advised to take necessary steps to reach the stipulated targets in a time-bound manner. The domestic Scheduled Commercial Banks, both in the public and private sector having shortfall in lending ding to priority sector/ agricultural lending target, are required to deposit in Rural Infrastructure Development Fund established with NABARD. As a measure of disincentive for non-achievement of agricultural lending target, the rate of interest for the deposits made by the contributing banks in RIDF (Rural Infrastructure Development Fund has been lowered and is charged in inverse proportion to the extent of shortfall in the agricultural lending *vis-à-vis* the stipulated target of 18 percent. Keeping in view the declining interest rate scenario and with a view to further provide disincentive to the banks for not achieving the agricultural lending target, the lending and deposit rates in respect of the undisbursed amount of RIDF IV to IX were restructured with effect from November 1, 2003. Accordingly, the banks are paid 6 percent in respect of the undisbursed amount of RIDF IV to VII uniformly and varying rate of interest between the Bank Rate and Bank Rate minus 3 percentage points (i.e. currently varying between 6% and 3%) in respect of RIDF VIII and RIDF IX. Thus, banks having a larger shortfall in lending to agriculture are being given interest at a lower rate (i.e. currently 3%, this being lower than the banks average cost of funds) and this should prove to be a disincentive for such banks and induce them to improve their agricultural lending.

Further, Reserve Bank of India has advised all domestic scheduled commercial banks to further improve the flow of credit to agriculture, so that the Government's aim of doubling the agriculture credit in 3 years can be achieved.

Several steps have been taken by the Government/Reserve Bank to increase institutional finance to weaker sections. As recommended by the Advisory Committee on flow of Credit to Agriculture and Related Activities (Vyas Committee), in order to improve the flow of credit to small and marginal farmers (which form a part of the weaker sections), the public sector banks have been advised to make efforts to increase their disbursements to small and marginal farmers to 40% of their direct disbursements under Special Agricultural Credit Plan (SACP) by March 2007. Further, with a view to bringing in urban poor into formal financial system, banks have been advised to advance loans to distressed urban poor to prepay their debt to non-institutional lenders, against appropriate collateral or group security, subject to the guidelines to be approved by their Boards of Directors.

Recommendation (Sl. No. 7, Para Nos. 58, 59, 60, 61)

The Committee are distressed to find that all India Credit deposit (CD) ratio of Scheduled Commercial Banks has gone down from 62.3% to 58.3%, as at end-March, 2004 *vis-à-vis* end March, 2003 and 2002. Moreover both the public and private sector banks have registered decline with much rapid fall seen in case of private sector banks.

They also observe that there is a lot of regional variation in CD ratio of banks. It varies from as low as 42.1 percent in Eastern region to 89 percent in Western region. This shows that credit disbursement in less developed States is far lower as against the advanced States. Another unwelcome development, as seen in the region-wise analysis, is that there has been a decline in this ratio in two major regions of the country, *viz*. Northern region and Western region whereas Southern region has registered only a marginal improvement of 2 to 3 per cent.

In this regard, the Committee observe that the RBI has advised banks to arrange their lending portfolio in such a way that more credit could be deployed in the backward States and districts of the country. Also, it has advised the convenor banks to take up the issue of CD ratio in SLBC meetings for identifying the measures for enhancing the CD ratio. They further observe that Expert Group appointed by the Government of India under the Chairmanship of Managing Director, NABARD to examine the various aspects of CD ratio on All-India basis, has submitted its report on February 23, 2005.

In view of all this, the Committee desire that the stepping up of credit deposit ratio should be taken up on priority basis and measures should be taken to reduce regional imbalances. They would further like to be apprised of the major recommendations of the Expert Group and Action Taken by the Government thereon. The Government should also consider making public the report of the Expert Group.

Reply of the Government

The final Report of the Expert Group appointed by the Government of India under the Chairmanship of Shri Y.S.P. Thorat, Managing Director, NABARD to examine various aspects of C.D. Ratio was submitted to the Government on 24.2.2005. The recommendations contained in the Report have been examined in consultation with the Reserve Bank of India (RBI) and views of the Government are likely to be finalized shortly. The Committee would be apprised of the major recommendations in the Report shortly.

Recommendation (Sl. No. 8, Para Nos. 68, 69 & 70)

The Committee observe that Section 7 (3) of the Fiscal Responsibility and Budget Management Act, (FRBM) 2003 mandates that no deviation is permissible in meeting and obligations cast on the Central Government under the Act, without the approval of Parliament. They note that minimum annual reduction in the revenue deficit should be by 0.5 percent of the GDP and in fiscal deficit should be by 0.3 percent of GDP.

However on account of extra resources that have to be shelled out as a result of implementation of recommendations of Twelfth Finance

Commissions (TFC), the targeted reduction in fiscal deficit would be by 0.2 percent while Revenue Deficit has been kept at the same level in Budget Estimates 2005-06 as in Revised Estimates 2004-05 *i.e.* 2.7 percent of GDP.

The Committee express concern over the fact that the Government has postponed the fiscal correction programme as envisaged by the FRBM Act. The Committee note the Government's explanation and are not inclined to accept the plea given that the targeted reductions in deficits could not be adhered to because of the implementation of TFC award. In their opinion, the additional expenditure on account of this should have been anticipated by the Government in advance and management of finances should have been done accordingly. The Committee, therefore, recommend that the Government should strictly adhere to the targets envisaged under FRBM Act, except under extraordinary circumstances and avoid deviation now and then.

Recommendation (Sl. No. 10, Para No. 87)

The Committee note that the Government has set up a fund *w.e.f.* 1st April, 2005, namely the National Investment Fund (NIF) wherein the proceeds of disinvestments would be parked and the accruals of income from the fund would be channelised for use in social sector projects as well as for capital investment in selected profitable Public Sector Enterprises. The fund is to be maintained outside the Consolidated Fund of India and professionally managed by selected Public Sector Financial entities, which have the requisite experience to provide sustainable returns to the Government without affecting the corpus. Though the setting up of the National Investment Fund (NIF) for parking disinvestments proceeds is in tune with the recommendation made by them earlier, the Committee feel that several important issues relating to the management of fund and utilisation of the proceeds of Income from the fund need to be addressed in detail and the Government's policy thereon made clear. The Committee also recommend that the accruals of disinvestments proceeds to the National Investment Fund should be utilised in an entirety for Investment in social sector projects and for meeting the capital expenditure of Public Enterprises.

Reply of the Government

The decision of the Government is that the corpus of the National Investment Fund is of a permanent nature. The permanent nature of the Fund was conceived to counter the criticism that the Government was selling capital assets to generate revenues to meet current expenditure. The permanent nature of the corpus ensures that the CPSEs related capital assets get transformed into investment by the Government which are productively employed and only the income is used to provide a sustainable source of finance for social sector needs and the capital requirements of profitable and revivable CPSEs. Action is being taken to operationalise the National Investment Fund.

CHAPTER III

RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE GOVERNMENT'S REPLIES

Recommendation (Sl. No. 3, Para Nos. 24 & 25)

The Committee note that the Ministry have allocated Rs. 25 crore at BE for 2003-04 which was revised to Rs. 35 crore at RE, and the actuals for the same year was Rs. 41.58 crore. Similarly, for 2004-05, Rs. 51.90 crore allocated at BE was revised to Rs. 46.70 crore and the actual expenditure by 23rd March 2005 was Rs. 28.10 crore. Allocations for BE 2005-06 have been made for Rs. 5 crore which is much lower to the actuals of 2004-05. They are not convinced by the reply of the Government that the Disinvestment programme for 2005-06 was not finalized at the time of finalisation of Budget Estimates for 2005-06.

Going by the previous trend noticed in 2003-04 and 2004-05, the Committee are constrained to state that Government have taken the entire budgetary exercise very casually which is pronounced in wide fluctuations between BE, RE and Actuals. The Committee recommend that the Government to project its budgetary allocations in a realistic way. At the same time they also recommend that the programme for Disinvestment should be prepared well in advance so that realistic sum could be allocated for the purpose.

Reply of the Government

The RE 2003-04 was raised from 25 crore in BE to Rs. 35 crore as disinvestments cases in respect of MFL, FACT, RCF, NFL, ITDC properties in Jaipur and Bhubaneshwar, HCL, STC, BALCO (Residual equity), HZL, NIL, MOIL, SIIL, HOCL, EIL/EPIL, NEPA, IPCL (Residual equity), MUL were originally expected to be completed during 2003-04 and consequently payment to Advisers, Asset Valuers, Legal Advisers, etc. in connection with these cases was also expected to fall due.

The decision for undertaking 6 IPOs was taken by the Government in the later half of 2003-04, therefore, the provision under this head was further required to be raised to Rs. 45.63 crore by way of Supplementary Grant.

At the BE stage, it is difficult to determine precisely the disinvestments transactions that would get completed in the year. Completion of disinvestments transactions through strategic sales depends on a variety of factors including time taken for due diligence as the same is dependent on the number of parties, investor's interest, final price bid, court cases, if any etc. However, keeping in view the completed transactions and the stages at which the process is in other cases, the estimates are revised at the RE stage and therefore, the difference.

During the year 2004-05, the BE for the year 2004-05 of Rs. 51.90 crore was projected on the basis of the estimates of expenditure that would cover the spill-over of expenditure in connection with the six IPOs completed during February-March, 2004 and also the cases of strategic sales that were being anticipated to get closed in 2004-05. Declaration of general elections slowed down the process as under the Model Code of Conduct the Government could not take major decisions. The new Government was formed in May, 2004 and it took time to formulate its policy on disinvestments. In view of these developments the anticipated activities/transactions could not be concluded and therefore, the requirement was reduced at the RE stage to 46.70 crore.

As the policy parameters/implementation strategies in regard to divestment in CPSEs were finalized in January, 2005, the activities in the Department remained low even in the later half of the Financial Year 2004-05. The activities during the year were mainly in the areas of residual matters pertaining to the disinvestments transactions concluded in the previous years. This was so because of reasons explained above and hence the total actual expenditure under the head "Professional Serices" upto 23rd March, 2005 was only Rs. 28.10 crore. This included a sum of Rs. 2.72 crore which was authorized to the Directorate of Advertising & Visual Publicity (DAVP) for issuing advertisements on behalf of Department of Disinvestment. Out of Rs. 2.72 crore an expenditure of Rs. 1.15 crore only was incurred by DAVP during the year. The total expenditure under this head upto 31st March, 2005 was Rs. 27.39 crore.

After the general elections, the new Government was formed in May, 2004 and at the time of submission of Budget Estimates for the year 2005-06 the Govt. had not finalized the strategies for implementation of its disinvestments policy and till Sept.-Oct., 2004, the disinvestments activities which were likely to be undertaken during 2005-06 were not clear. A token provision of Rs. 5 crore was, therefore, made.

While preparing the Budget Estimates and the Revised Estimates every effort is made to project realistic estimates but due to the fact that the expenditure under the Head "Professional Services" depends on a number of factors, it is very difficult to make accurate projections. However, the Government would in future, in keeping with the spirit of the recommendations of the august Committee, make additional efforts to ensure that the budgetary projections are more realistic and accurate. Efforts will also be made to ensure that the disinvestment programme for the ensuring year(s) is chalked out well in advance so that there are no variations in the projected estimates and the actual expenditure.

Recommendation (Sl. No. 4, Para Nos. 34 & 35)

The Committee note that despite adoption of 90 day delinquency norms with effect from 31st March, 2004, both gross and net NPAs of Scheduled Commercial Banks (SCBs) declined by 0.7 percent in 2003-04. However, they are perturbed to find out that top 10 defaulters to the banking industry owe as much as Rs. 3908.96 crores, as on 31st March, 2004. After enactment of Securitisation and Reconstruction of Financial Assets and Enforcement of Security Invest Act (SARFAESI) in December, 2002, the Banks have recovered Rs. 1748.49 crores as on 30th June, 2004 out of the total involved amount of Rs. 19744.02 crores. The recoveries under the SARFAESI Act was lower due to its challenge in the Supreme Court and consequent deletion of Section 17(2) of the Act. In order to rectify the lapses in the Act, it was amended by the Enforcement of Security Interest and Recovery of Debts Laws (Amendment) Act, 2004.

Even amending Section 19 of the Recovery of Debts Due to Banks and Financial Institutions Act, 1993 (DRT Act) has not yielded the desired results since banks cannot take simultaneous action under SARFAESI Act and DRT Act. Therefore, the Indian Banks Association (IBA) has desired that DRT Act should be further amended to enable banks to make recoveries smoothly, under the SARFAESI Act. They note the Government reply in this regard informing that they (Government) are addressing this issue. They recommended the Government to immediately look into the matter and amend the relevant Acts suitably to remove any hurdle that comes in the way of making recoveries in an effective manner. The Government should take other strong and effective measures to realize NPAs expeditiously.

Reply of the Government

It may be stated that the apprehension of the Banks has been examined and keeping in view of the following aspects no further action is called for, at this stage:

1. DRT is the court of adjudication between the borrower and secured lender for any action under SARFAESI Act. Hence, simultaneous proceedings under both the Acts cannot be allowed.

2. The issue raised by the Bankers is only a transitory problem where banks may not have initiated action under SARFAESI Act; their case in DRT would be pending; and 3 years from the default date may be coming to an end.

3. The limitation of 3 years is from the date the loan becomes a substandard account. Within three years of the date, on which the last due instalment was not paid, the bank has to file a case with DRT. Three years is too long a period for the banks to complete their action under SARFAESI Act.

4. If banks initiate negotiations with borrowers after 90 days of default (when loan becomes NPA) and if negotiations fail after 180 days thereafter the banks can initiate action under SARFAESI Act and complete such action in a maximum period of one year. Even thereafter, a period more than a year would be available for filing a case in the DRT.

5. The banks have to examine the viability of the negotiations under the SARFAESI Act before filing application for withdrawal from the DRTs in the cases where limitation period becomes very short.

6. So far as yielding of the desired results after amending Section 19 of the Recovery of Debts Due to Banks and Financial Institutions Act, 1993 (DRT Act) it may be stated that the said amendment was notified only during December, 2004 and it is too early to assess the results at this stage.

CHAPTER IV

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT HAVE BEEN ACCEPTED BY THE COMMITTEE

Recommendation (Sl.No. 1, Para Nos. 13, 14)

The Committee observed that under the head IRDA-other charges, there has been no expenditure since 2003-04. They find that since 2002-03, the Authority started retaining fees and a percentage of premium income of insurance companies and incurred expenditure out of this. They also note that there is difference of opinion on location of the IRDA Fund between the Government of India and the IRDA. The Government of India has finally created a relevant head under the Public Account of India and the IRDA has been asked to transfer the money into this.

The Committee feel constrained to state that this issue is still alive when the Ministry of Law also furnished its opinion in the matter. Therefore, the Committee strongly recommend that the fund should be immediately placed in the Public Account of India and IRDA should draw amounts to discharge its functions from this fund. They would like to be informed of the action taken in this regard within a period of three months.

Reply of the Government

On the advise of the Ministry of Law and the Department of Expenditure, this Ministry has requested the Insurance Regulatory and Development Authority (IRDA), time and again, to transfer the IRDA Fund into Public Account of India. Attention of IRDA has also been drawn to the Audit Para of AGCR and Recommendations of the Standing Committee on Finance in its 16th Report. However, the Fund is yet to be placed in Public Account of India. The IRDA is again being requested at the level of Secretary, Department of Economic Affairs to place the fund in the Public Account of India immediately.

Recommendation (Sl.No. 9, Para No. 78)

The Committee are informed that the Government have decided to consider the sale of minority share holding in profitable PSEs, modernize and restructure sick but potentially viable PSEs and sell chronically and terminally sick PSEs. In view of the Committee's repeated recommendations for preparation of disinvestment policy document to be discussed in Parliament, the Committee are given to understand that white paper on Disinvestment is under preparation and is expected to be tabled during the Monsoon Session of Parliament, 2005-06. The Committee recommend that the preparation of white paper on Disinvestment may be expedited so that it is laid before Parliament during the monsoon session, 2005.

Reply of the Government (i)

Action is being taken to table the White Paper on Disinvestment of Central Public Sector Enterprises in the Parliament during the Monsoon Session 2005.

Reply of the Government (ii)

[*Vide* Ministry of Finance, Department of Disinvestment, letter dated 25.11.2005]

"The matter of placing a White Paper on Disinvestment of CPSEs for information of the Parliament is under consideration of the Government. The White Paper would be a comprehensive document and detail the historical development of the disinvestments in CPSEs since 1991-92 and also deal with the implementation strategy in respect of the policy as enshrined in NCMP. After the White Paper is finalised and placed for information of the Parliament, the Government would take a view on whether a comprehensive document on disinvestment policy is required."

CHAPTER V

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT ARE STILL AWAITED

-Nil-

NEW DELHI;
19 *December,* 2005
28 *Agrahayana,* 1927 *(Saka)*

MAJ. GEN. (RETD.) B.C. KHANDURI,
Chairman,
Standing Committee on Finance.

MINUTES OF THE TENTH SITTING OF STANDING COMMITTEE ON FINANCE

The Committee sat on Monday, 19 December, 2005 from 1500 hrs. to 1615 hrs.

PRESENT

Maj. Gen. (Retd.) B.C. Khanduri—*Chairman*

MEMBERS

Lok Sabha

2. Shri Jaswant Singh Bishnoi
3. Shri Gurudas Das Gupta
4. Shri Bhartruhari Mahtab
5. Shri Madhusudan Mistry
6. Shri Rupchand Pal
7. Shri Shriniwas D. Patil
8. Shri Jyotiraditya Madhavrao Scindia
9. Shri M.A. Kharabela Swain
10. Shri Magunta Sreenivasulu Reddy

Rajya Sabha

11. Shri Yashwant Sinha
12. Shri Chittabrata Majumdar
13. Shri C. Ramachandraiah
14. Shri Mangani Lal Mandal

SECRETARIAT

1. Dr. (Smt.) P.K. Sandhu	—	*Additional Secretary*
2. Shri A. Mukhopadhyay	—	*Joint Secretary*
3. Shri S.B. Arora	—	*Deputy Secretary*
4. Shri T.G. Chandrasekhar	—	*Under Secretary*

2. At the outset, the Chairman welcomed the Members to the sitting of the Committee.

3. The Committee, then considered the draft reports on (i) Action taken by the Government on the recommendations contained in the Sixteenth Report of the Committee on Demands for Grants (2005-06) of the Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment), (ii) Action taken by the Government on the recommendations contained in the Eighteenth Report of the Committee on Demands for Grants (2005-06) of the Ministry of Planning, and (iii) Action taken by the Government on the recommendations contained in the Twentieth Report of the Committee on Demands for Grants (2005-06) of the Ministry of Company Affairs.

4. The Committee adopted the draft action taken reports mentioned above without any modification/amendment.

5. ** ** ** ** ** **

6. ** ** ** ** ** **

7. While deliberating on the draft action taken reports, the Committee also decided that separate notes may be called for from the Ministries/Departments concerned on the following issues:

(i) Utilisation of the accruals to the National Investment Fund (NIF) set up for parking the disinvestment proceeds.

(ii) ** ** ** ** ** **

(iii) ** ** ** ** ** **

(iv) ** ** ** ** ** **

(v) ** ** ** ** ** **

8. The Committee authorised the Chairman to finalise the Reports and to make verbal and other consequential changes and present the same to both the Houses of Parliament.

The Committee then adjourned.

APPENDIX

(*Vide* Para 3 of the Introduction)

ANALYSIS OF THE ACTION TAKEN BY GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE SIXTEENTH REPORT OF THE STANDING COMMITTEE ON FINANCE (FOURTEENTH LOK SABHA) ON DEMANDS FOR GRANTS (2005-06) OF THE MINISTRY OF FINANCE (DEPARTMENTS OF ECONOMIC AFFAIRS, EXPENDITURE AND DISINVESTMENT)

		Total	% of Total
(i)	Total number of recommendations	10	
(ii)	Recommendations/observations which have been accepted by the Government (*Vide* Recommendations at Sl. Nos. 2, 5, 6, 7, 8, 10)	6	60
(iii)	Recommendations/observations which the Committee do not desire to pursue in view of the Government's replies (*Vide* Recommendations at Sl. Nos. 3 & 4)	2	20
(iv)	Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee (*Vide* Recommendations at Sl.Nos. 1 & 9)	2	20
(v)	Recommendations/observations in respect of which final reply of the Government is still awaited (Nil)	Nil	00.00