36

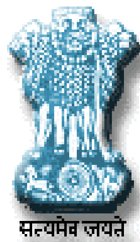
STANDING COMMITTEE ON FINANCE
(2005-06)

FOURTEENTH LOK SABHA

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

Demands for Grants
(2006-07)

THIRTY-SIXTH REPORT



LOK SABHA SECRETARIAT
NEW DELHI

May, 2006/Jyaistha, 1928(Saka)

THIRTY-SIXTH REPORT

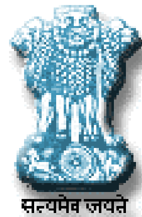
STANDING COMMITTEE ON FINANCE
(2005-2006)

(FOURTEENTH LOK SABHA)

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

DEMANDS FOR GRANTS
(2006-07)

Presented to Lok Sabha on 22 May, 2006
Laid in Rajya Sabha on 22 May, 2006.



LOK SABHA SECRETARIAT
NEW DELHI

May, 2006/Jyaistha, 1928(Saka)

CONTENTS

PAGE

COMPOSITION OF THE COMMITTEE……………………………… (iii)

INTRODUCTION……………………………………………………… (iv)

REPORT…………………………………………………………………..

STATEMENT OF CONCLUSIONS/RECOMMENDATION ……

Appendices

I. Minutes of the sittings of the Committee held on 18th, April, 2006……..
II. Minutes of the sittings of the Committee held on 19th May, 2006……..

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 Gupta
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 M. Venkaiah Naidu
23. Shri Yashwant Sinha
24. Shri Chittabrata Majumdar
25. Shri S.P.M. Syed Khan
26. Shri Amar Singh
27. Shri C. Ramachandraiah
28. Shri Mangani Lal Mandal
29. Shri Santosh Bagrodia
30. Smt. Shobhana Bhartia
31. Vacant

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
5. Smt. Anita B. Panda - Under Secretary

INTRODUCTION

I, Chairman, Standing Committee on Finance having been authorised by the Committee to submit the report on their behalf, present this Thirty-Sixth Report on the Demands for Grants (2006-07) of the Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment).

2. The Demands for Grants of the Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment) were laid on the Table of the House on the 11th March, 2006. Under Rule 331E of the Rules of Procedure and Conduct of Business in Lok Sabha, the Standing Committee on Finance are required to consider the Demands for Grants of the Ministries/Departments under their jurisdiction and make reports on the same to both the Houses of Parliament. Thereafter the Demands are considered by the House in the light of the reports of the Committee. However, this year, the Demands for Grants of the Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment) were passed by Lok Sabha on the 17th March, 2006 prior to their consideration by the Standing Committee on Finance. Nonetheless, the Committee examined the Demands for Grants (2006-07) of the Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment) and issues arising out of these.

3. The Committee took oral evidence of the representatives of the Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment) at their sitting held on 18th April, 2006 in connection with Demands for Grants (2006-07) of the Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment). The Committee considered and adopted the draft Report at their sitting held on 19th May, 2006.

4. The Committee wish to express their thanks to the officers of the Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment) for the co-operation extended by them in furnishing written replies and for placing their considered views and perceptions before the Committee.

5. For facility of reference, the observations/recommendations of the Committee have been printed in thick type.

NEW DELHI; **(MAJ. GEN. (RETD.) B.C. KHANDURI)**
19 May, 2006 ***CHAIRMAN,***
29 Vaisakha,1928 (Saka)
Standing Committee on Finance

REPORT

Chapter I

Introductory

The Ministry of Finance is responsible for the administration of the finances of the Central Government. It is concerned with all economic and financial matters affecting the country as a whole, including mobilisation of resources for development. It regulates the expenditure of the Central Government, including the transfer of resources of States. The Ministry comprises of four Departments, namely:-

i. Department of Economic Affairs;
ii. Department of Expenditure;
iii. Department of Revenue; and
iv. Department of Disinvestment.

2. The Departments of Economic Affairs and Expenditure are the nodal Departments for following divisions:-

i. Economic Division
ii. Banking Division & Insurance Division
iii. Budget Division
iv. Capital Markets, Pension Reforms and External Commercial Borrowing Division
v. Asian Development Bank Division
vi. Fund Bank Division
vii. Foreign Trade Division
viii. Aid Accounts and Audit Division
ix. Administration Division
x. Bilateral Cooperation Division
xi. Integrated Finance Division
xii. Establishment Division
xiii. Plan Finance I - Division
xiv. Plan Finance II - Division
xv. Finance Commission Division

2. The overall Demands for Grants (2006-07), Ministry of Finance, pertaining to the Departments of Economic Affairs and its various divisions, Department of Expenditure and Department of Disinvestment are covered under Demand Nos. 31 to 40 and Demand No. 44.

3. In the present Report, the Committee have examined the following issues arising out of the Budget Proposals (2006-07):

A. Department of Economic Affairs

1. Banking Sector

(i) Priority Sector Lending – Lending to Agriculture Sector.
(ii) DRTs – Disposal of pending cases and filling up of vacant posts;

2. Micro Finance

SHGs – Bank Linkage Programme .

3. Insurance Sector

Performance of Public Sector Life and General Insurance Companies

4. Capital Market

Investor Protection Fund under SEBI

B. Department of Expenditure

The FRBM Act and Rules

C. Department of Disinvestment

(i) Policy on Disinvestment
(ii) National Investment Fund

Review of Report on Demands for Grants (2005-06)

4. While examining the Demands for Grants of the Ministry of Finance, Departments of Economic Affairs, Expenditure and Disinvestment of the previous year, 2005-06, the Committee in their report, which was presented on the 20 April, 2005, considered the following issues:

1. Demand No. 32 – Insurance Regulatory and Development Authority – Other charges (Department of Economic Affairs)
2. Demand No. 39 - Secretariat – Professional Services (Department of Expenditure)
3. Demand No. 45 – Professional Services (Department of Disinvestment)
4. NPAs of the Banking Sector
5. Debts Recovery Tribunals
6. Advances to Agriculture and Weaker Sections
7. Credit Deposit Ratio of scheduled commercial banks

8. Implementation of Twelfth Finance Commission recommendations and FRBM Act
9. Policy on Disinvestment
10. National Investment Fund

5. The Report of the Committee (2005-06) contained ten recommendations in all. In terms of Direction 73A of the Directions by the Speaker, the Finance Minister made a statement in the Lok Sabha on 20 December, 2005 on the Status of implementation of the recommendations made by the Committee in the Report.

6. Of the ten recommendations contained in the report on the Demands for Grants (2005-06) of the Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment) as indicated in the Action Taken Report presented on 22 December, 2005, the Government accepted six recommendations i.e. (i) Demand No. 39 – Secretariat – Professional Services, (ii) Debt Recovery Tribunals (Department of Economic Affairs), (iii) Advances to Agriculture and Weaker Sections (Department of Economic Affairs), (iv) Credit Deposit Ration of Scheduled Commercial Banks (Department of Economic Affairs), (v) Implementation of Twelfth Finance Commission's recommendations and FRBM Act (Department of Expenditure) and (vi) National Investment Fund (Department of Disinvestment). The Committee did not desire to pursue two of the recommendations/observations in view of the Government's replies viz. (i) Demand No. 45- Professional Services, and (ii) Non-Performing Assets of the Banking Sector (Department of Economic Affairs); and commented on three of the recommendations in respect of which replies of the Government were not satisfactory viz. (i) Insurance Regulatory and Development Authority – other charges (ii) Debt Recovery Tribunals and (iv) Policy on Disinvestment.

Chapter - II
Department of Economic Affairs
Priority Sector Lending – Lending to Agriculture Sector

7. Indian Commercial Banks are required to lend at least 40 percent of their Net Bank Credit (NBC) to projects in the priority Sector. Of the net quantum earmarked for priority sector lending banks are also required to extend 18 percent of their NBC to the agriculture sector.

8. The outstanding priority sector advances of Public Sector Banks (PSBs) increased by 26.85 percent from Rs. 244456 crore as at the end of March 2004 to Rs. 310093 crore as at the end of March 2005. Advances to agriculture sector constituted 15.7 percent of NBC as on March, 2005.

9. Asked to specify the sectors/areas presently covered under the purview of priority sector for extending bank credit , the Ministry of Finance, inter alia submitted as below:

"At present, the priority sector broadly comprises the following activities:

i. Agriculture
ii. Small Scale Industries
iii. Other Activities/borrowers (such as small business, retail trade, small road and water transport operators, professional and self-employed persons, housing education loans, micro credit etc)."

10. Details of Priority Sector lending by public and private sector banks (as at end March), as per the Report on Trend and Progress of Banking in India, 2004-05, (submitted in June, 2005) are shown as below:

(Rs. In crore)

Item	Public Sector Banks		Private Sector Banks.	
	2003-04	2004-05	2003-04	2004-05
1	2	3	4	5
Priority Sector	2,44,456 (43.6)	3,10,093 (43.2)	48,920 (47.3)	69,384 (43.3)
Of which: Agriculture	84,435 (15.1)	1,12,475 (15.7)	14,730 (14.2)	21,475 (12.1)
Small scale Industries.	58,311 (10.6)	67,634 (9.4)	7590 (7.3)	8668 (5.4)
Other priority sector	1,01,710 (18.1)	1,29,984 (18.1)	26,600 (25.7)	39,241 (24.5)

11. Questioned about the reasons for public and private sector commercial banks experiencing shortfalls in achieving the stipulated targets in respect of lending to agriculture as shown in the above table, the Ministry of Finance inter alia submitted as below in reply:

"All public and private sector commercial banks are presently required to direct at least 40% of their Net Bank Credit (NBC) to designated priority sectors of which sub-targets have also been specified for lending to agriculture and the weaker sections within the priority sector. Accordingly, at least 18% of net bank credit by public/private sector commercial banks is to be lent to agriculture of which indirect agricultural advances should constitute not more than 4.5%.

As on 31 March, 2004, only 7 banks could achieve the target of 18% lending to agriculture. However, following the announcement on 18 June, 2004 of the Hon'ble Finance Minister for doubling of credit flow to agriculture in three years, agricultural lending by public sector commercial banks improved significantly during 2004-05, as a result of which 13 banks could achieve the 18% target as on 31 March, 2005. However, while 4 private sector commercial banks could achieve the agricultural lending targets during 2004-05, only 2 could achieve the same during 2004-05."

12. The list of Public Sector commercial banks which have achieved the stipulated agriculture lending target of 18% of NBC as on 31 March, 2005 is shown below:

Sr. No.	Name of Bank
1	Allahabad Bank
2	Andhra Bank
3	Bank of India
4	Central Bank of India
5	Indian Bank
6	Indian Overseas Bank
7	Punjab and Sindh Bank
8	Punjab National Bank
9	Syndicate Bank
10	State Bank of Bikaner and Jaipur
11	State Bank of Indore
12	State Bank of Patiala
13	State Bank of Saurashtra

12. Banks that were asked to compulsorily make deposits in the RIDF due to failure to meet the stipulated level of lending to agriculture for the last three years (RIDF XI, X and IX) as furnished by the Ministry are shown below:

Names of Public Sector Commercial Banks which made allocations owing to shortfalls in lending to agriculture sector under RIDF – XI

Rs in crore

SR.NO.	NAME OF BANKS	AMOUNT OF RIDF ALLOTMENT (RS. CRORE)
1.	Bank of Baroda	8.62
2.	Bank of Maharashtra	6.58
3.	Canara Bank	17.84
4.	Corpn. Bank	19.08
5.	Dena Bank	8.1
6.	Oriental Bank	18.87
7.	UCO Bank	11.29
8.	Union Bank	8.21
9.	United Bank	187.75
10.	Vijaya Bank	8.24
11.	State Bank of India	5860.52
12.	SB Hyderabad	8.21
13.	SB Mysore	2.94
14.	SB Travancore	8.43
	Total	**6174.68**

Private Sector Banks which made allocations under RIDF XI owing to shortfalls in lending to agriculture sector

Sr. No.	Name of the Bank	Amount of RIDF allocation (Rs.Crore)
1.	Nainital Bank Ltd.	0.26
2.	Bank of Rajasthan Ltd.	26.05
3.	Catholic Syrian Bank Ltd.	151.30
4.	City Union Bank Ltd.	2.74
5.	Karur Vysya Bank Ltd.	2.23
6.	Lakshmi Vilas Bank Ltd.	0.93
7.	Ratnakar Bank Ltd.	8.87
8.	Sangli Bank Ltd.	132.97
9.	Tamilnadu Mercantile Bank Ltd.	1.57
10.	Federal Bank Ltd.	8.25
11.	Karnataka Bank Ltd.	4.96
12.	Bharat Overseas Bank	1.35
13.	South Indian Bank Ltd.	4.18
14.	Lord Krishna Bank Ltd.	1.54
15.	Jammu & Kashmir Bank Ltd.	10.55
16.	United Western Bank Ltd.	2.79
17.	Dhanalakshmi Bank Ltd.	77.17
18.	UTI Bank	11.68
19.	Indusind Bank	409.02
20.	ICICI Bank Ltd.	1.68
21.	Development Credit Bank	82.24
22.	Centurian Bank	185.48
23.	HDFC Bank	9.11
24.	Bank of Punjab	165.87
25.	IDBI Bank	12.87
26.	IDBI Ltd.	297.04
27.	SBI Commercial Bank Ltd.	14.74

28.	ING Vysya Bank Ltd.	7.28
29.	Yes Bank	190.60
	Total	**1825.32**

Public Sector Commercial Banks which made allocations under RIDF – X

SR.NO.	NAME OF BANKS	AMOUNT OF RIDF ALLOTMENT (RS. CRORE)
1.	Andhra Bank	29.15
2.	Bank of Baroda	122.46
3.	Bank of India	34.94
4.	Bank of Mah.	143.2
5.	Canara Bank	377.23
6.	Central BOI	96.54
7.	Corpn. Bank	250.74
8.	Dena Bank	166.63
9.	Oriental Bank	313.8
10.	Punjab & Synd	11.68
11.	Syndicate Bank	73.14
12.	UCO Bank	294.15
13.	Union Bank	193.33
14.	United Bank	177.21
15.	Vijaya Bank	141.72
16.	State Bank of India	3069.8
17.	SB Bikaner & Jaipur	35.52
18.	SB Hyderabad	103.98
19.	SB Mysore	40.65
20.	SB Travancore	160.39
	Total	**5836.25**

Private Sector Banks which made allocations under RIDF-X

Sr. No.	Name of the Bank	Amount of RIDF allocation (Rs.Crore)
1.	Nainital Bank Ltd.	2.28
2.	Bank of Rajasthan Ltd.	64.49
3.	Catholic Syrian Bank Ltd.	141.17
4.	City Union Bank Ltd.	43.68
5.	Karur Vysya Bank Ltd.	65.26
6.	Lakshmi Vilas Bank Ltd.	26.88
7.	Ratnakar Bank Ltd.	5.83
8.	Sangli Bank Ltd.	40.85
9.	Tamilnadu Mercantile Bank Ltd.	34.53
10.	Federal Bank Ltd.	180.10
11.	Karnataka Bank Ltd.	69.52
12.	Bharat Overseas Bank	23.05
13.	South Indian Bank Ltd.	94.32
14.	Lord Krishna Bank Ltd.	30.78
15.	Jammu & Kashmir Bank Ltd.	258.40
16.	United Western Bank Ltd.	135.50

17.	Dhanalakshmi Bank Ltd.	57.35
18.	UTI Bank	67.55
19.	Indusind Bank	95.24
20	Development Credit Bank	85.16
21	Centurian Bank	44.36
22.	HDFC Bank	145.03
23.	Bank of Punjab	108.75
24.	IDBI Bank	227.43
25.	ING Vysya Bank Ltd.	116.24
	Total	**2163.75**

PUBLIC SECTOR BANKS WHICH MADE ALLOCATIONS UNDER RIDF IX

NAME OF BANKS	AMOUNT (RS. CRORE)
Allahabad Bank	16.27
Andhra Bank	30.72
Bank of Baroda	36.58
Bank of Maharashtra.	52.37
Canara Bank	98.41
Central BOI	120.4
Corpn. Bank	86.15
Dena Bank	55
Indian Overseas Bank	23.16
Oriental Bank of Commerce	111.13
Punjab National Bank	72.37
Punjab & Sind Bank	12.04
Syndicate Bank	19.8
Union Bank of India	75.6
United Bank of India	307.98
UCO Bank	79.36
Vijaya Bank	28.43
State Bank of India	2569.23
State Bank of Bikaner & Jaipur	3.32
State Bank of Hyderabad	15.63
State Bank of Mysore	6.3
State Bank of Travancore	53.84
Total	**3874.09**

Private Sector Banks which made allocations under RIDF-IX

Sr. No.	Name of the Bank	Amount of RIDF allocation (Rs.Crore)
1.	Jammu & Kashmir Bank Ltd.	372.02
2.	Bank of Rajasthan Ltd.	26.74
3.	Karnataka Bank Ltd.	22.16
4.	Vysya Bank	92.05
5.	Catholic Syrian Bank	93.28
6.	Dhanalakshmi Bank Ltd.	9.69
7.	Federal Bank Ltd.	50.46
8.	Lord Krishna Bank Ltd	128.43
9.	South Indian Bank Ltd.	33.84
10.	Ratnakar Bank Ltd.	14.49
11.	Sangli Bank Ltd.	0.71
12.	United Western Bank Ltd.	27.37

13.	Bharat Overseas Bank	6.48
14.	Lakshmi Vilas Bank Ltd.	8.97
15.	Karur Vyasya Bank	22.52
16.	City Union Bank	14.27
17.	Tamilnadu Mercantile bank Ltd.	16.72
18.	Nainital Bank Ltd.	0.57
19.	SBICI Bank	0.61
20.	UTI Bank	73.78
21.	Indusind Bank	29.98
22.	Centurian Bank	15.14
23.	Global Trust Bank	319.10
24.	HDFC Bank	60.98
25.	Bank of Punjab	104.31
26.	Development Credit Bank	29.70
27.	IDBI Bank	51.54
	Total	**1625.91**

13. On being asked to specify the reasons for the public sector banks achieving the stipulated targets in lending to "other priority sector", while experiencing shortfalls in lending to agriculture and small scale industries sectors, the Ministry of Finance, inter alia, submitted as follows in reply:

"Public Sector banks are consistently achieving the stipulated target in lending to priority sector. The main reason is that priority sector has large number of segment such as agriculture loans, small scale industry, small road and water transport operators, small business, retail trade, setting up of industrial estate, Housing Loan, Consumption Loan, Education Loan etc. Some of the sectors are having high absorption capacity for credit and are spread over in rural, semi urban and urban areas as well. Some of the segments are using modern techniques for their operations and are having better infrastructure and marketing support. All these factors contribute higher credit requirement to the priority sector in general. Lack of low absorption capacity, low adoption technology in agriculture, lack of infrastructure and marketing support are some of the important reasons for low advances to agriculture and SSI Sector."

14. When asked further about the steps taken by the Government to remove/overcome the hurdles facing banks in meeting the targets of priority sector lending, particularly agriculture and SSI Sector, the Ministry of Finance inter alia submitted as below:

"Some of the initiatives taken by Govt. of India to address these short comings are transfer of technology through Krishi Vigyan Kendras, formation of farmer's clubs, amendment to Apmc act of various states, establishment of village knowledge centres, promotion of lab to land experiment of agriculture universities , establishment of farmers training centers by Banks etc. Govt. has supported the creation of

infrastructure for rural godowns, cold storage, creation of rural haat. Further, RIDF funds have been used to help states in improving their rural infrastructure. So far, 11 tranches with a total corpus of rs.50,000 crore has been created under RIDF, as on 31 March 2006, 244651 rural infrastructure projects have been sanctioned with a total RIDF assistance of Rs. 51256.45 crore, an amount of Rs. 31337.34 crore has since been disbursed"

15. Asked whether the announcement made by the Government on June 18, 2004 to double the flow of credit to agricultural sector in the next three years was attainable, the Ministry furnished their reply as below:

"The announcement made by the Government of India on 18 June, 2004 that credit to agriculture shall be doubled in the next three years is attainable, as per available facts and trends. The target set for the first year of the doubling of credit programme, i.e., 2004-05, was Rs. 1,05,000 crore, against which the actual disbursement was Rs. 1,25,309 crore, i.e., a growth of 44% was achieved as against the targeted growth rate of 30%. Similarly, as against a target of Rs. 1,41,000 crore during 2005-06, all agencies have achieved Rs. 130,338 crore during the period Apr. 05 to Jan. 2006.

Hence, the agri-credit target of Rs. 1,41,000 crore during 2005-06 is likely to be achieved going by the current trends.

In pursuance to the announcement of Finance Minister in his Budget Speech 2006, banks are expected to disburse around Rs. 1,75,000 crore during 2006-07. Considering that the credit flow to agriculture during the base year, i.e., 2003-04 was Rs. 86,981 crore, the target for doubling credit flow to agriculture in three years from 2004-05 to 2006-07 is attainable."

16. Questioned about instances of farmer's suicide due to financial distress in the country in the recent past, the Ministry of Finance inter alia replied as follows :

"As per the information available, there have been some instances of farmers' suicides in certain parts of the country. However, the reasons for such suicides may be social, personal, psychological, health and financial."

17. Questioned about the studies conducted by the Government to understand the plight of farmers, especially in regions/areas where cases of suicide by farmers have been reported so as to enable taking measures for extending credit facility on flexible terms to farmers of such areas/regions, the Ministry furnished their reply as below;

"NABARD organised farmers' meets in 7 selected states to understand the plight of farmers. This was followed by a National Consultative Meet wherein the findings of the above farmers' meets were deliberated upon by all the stakeholders. Three working groups were constituted which looked into various issues flagged in the National Consultative Meet and suggested implementable action points."

18. Some of the critical issues confronting farmers as identified by National Consultative Meet are furnished as below:

(i) Banker-borrower Relationship

The need for strengthening banker-borrower relationship, providing banking services at the doorstep of the farmers, developing positive mindset of the branch managers towards agriculture lending and providing them with adequate sanctioning powers for agricultural projects, was stressed. The posting of technically qualified officers in rural branches, innovating farmer- friendly loan products, financial and non- financial incentives to the borrowers having good repayment record, besides meeting the credit needs of the tenant farmers and oral lessees through SHGS or otherwise and flexibility in business hours of banks suitable to the needs of the farmers were the other important credit-related issues, which figured in the discussions at the meet.

(ii) Group loans for transformers, generator sets etc.

…ensuring uninterrupted power supply without voltage fluctuation for at least 8 to 12 hours in rural areas and giving priority for energisation of pumpsets and considering group loans for transformers, generator sets etc., were the issues that came up for discussion .

(iii) Risk mitigation and safety-net

Creation of awareness for various insurance products, bringing all crops for all areas under insurance cover, low premium rates, simplified procedure for settlement of claims, village to be made as the base unit for assessment of crop damage, providing cover to farmers for all types of risks, constitution of risk fund by contribution from all stake holders viz., Central Government, State

Government, NABARD commercial banks, etc., to take care of various risks faced by the farmers were the major risk-mitigating factors discussed. Suggestion for involving farmers clubs and SHGS in setting up grain banks, seed banks, fodder banks at gram panchayat level, revival of failed well compensation scheme were also made.

(iv) Managing crisis

… encouraging farmers to take up on and off farm/non farm activities simultaneously to ensure supplementary income during distress, preventing exploitation of farmers by unscrupulous market forces were some of the other issues.

19. The Ministry further added that in Maharashtra, studies were conducted by a team headed by Dr. M.S. Swaminathan, Chairman, National Commission on Farmers, Tata Institute of Social Sciences and Indira Gandhi Institute for Development Research besides certain studies taken up by NABARD. The National Commission on Farmers (NCF), under the chairmanship of Prof. M.S. Swaminathan also visited Vidharba Region during October, 2005. The above studies have made observations in respect of the cause of distress for farmers which include such observations as absence of safety to farmers , lack of information relating to agriculture, crop failure etc, adverse cost risk return structure, credit problem etc. Credit problem refers to the high interest rates and that those who are unable to repay loans to commercial banks due to crop failure are left with no option except to go to money lenders, who may charge 120% interest.

20. On flow of institutional credit to agriculture it has been indicated in the Economic Survey 2005-06 as below:

"The total ground level credit flow for agriculture and allied activities increased from Rs.46,268 crore in 1999-00 to Rs.86,981 crore in 2003-04, and further to Rs.1,25,309 crore in 2004-05. The target of agriculture credit flow for the year 2005-06 was fixed at Rs.1,41,000 crore. The achievement on December 31, 2005 was 83.6 per cent with such credit at Rs.1,17,899 crore (Table below). Around 58.3 lakh new farmers have been financed by all the banks. An amount of Rs. 2,939 crore was provided as debt relief by all agencies to farmers in distress, farmers in arrears and under One Time Settlement (OTS) during 2005-06 up to November 30, 2005. Under special OTS scheme, old and chronic loans amounting to Rs. 342 crore have been settled. Commercial banks have

provided Rs.14 crore as advances to 4,074 farmers to enable them to redeem their debts from money lenders. The corresponding figures for Cooperative Banks and Regional Rural Banks (RRBs) are Rs. 1.30 crore and Rs. 4.44 crore, respectively.

Table 8.13 : Institutional credit to agriculture

(Rs. crore)

Agency	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06*
Cooperative Banks	20,800	23,604	23,716	26,959	31,231	28,947
RRBs	4,220	4,854	6,070	7,581	12,597	11,146
Commercial Banks	27,807	33,587	39,774	52,441	81,481	77,806
Total	52,827	62,045	69,560	86,981	1,25,309	1,17,899

* Upto December 31, 2005
Source : NABARD.

21. Speaking on issues relating to agriculture credit, the Finance Secretary, in the course of evidence inter alia stated:

> "As far as agriculture is concerned, credit is a very important ingredient in improving agricultural productivity. As is well known, only about 49 per cent of our farmers have access to credit and out of 49 per cent only 27 per cent have access to institutional credit. Therefore, it is very important that a push needs to be given to enhance the credit availability from institutional source for farmers."

22. In reply to a specific question on why some public sector banks have indicated they were willing to only extend credit to joint groups and not individuals the Special Secretary, Financial Sector, Ministry of Finance inter alia stated as below:

> "That is largely because the National Commission on Agriculture and the National Consultative Committee have said that tenant farmers and oral lessees not possessing the title are not being covered under the usual schemes. We have brought them under Joint Liability Group. The idea was to ensure that in the financial inclusion larger number of these people get covered. So, tenant farmers and oral lessees have formed Joint Liability Groups and they are being benefited through that mechanism. The recovery also has improved in this system because of the peer pressure."

23. On the apprehensions/difficulties reportedly expressed by the bankers on extending agriculture credit at 7 percent rate of interest the Special Secretary, Financial Sector, Ministry of Finance inter alia stated as follows:

> " We were all present when the bankers met the Finance Minister. They explained the mechanics of raising cheaper funds. They explained the risks involved in lending to agriculture. They also explained the amount that they have to spend while intermediating. They came to a certain figure. We have asked the NABARD and the banks to work out on these figures. We are hopeful that it will come close to seven per cent. In case there is a need to subvent, Government has not closed its thinking on this particular issue."

24. Asked whether the deposits compulsorily made by the banks to RIDF on account of inability to meet the agriculture lending targets was a viable alternative, the Special Secretary, Financial Sector gave his reply as below:

> "RIDF certainly is not very efficient way of utilizing credit which is meant for the priority sector lending to agriculture. But, to the extent that certain banks have not been able to meet targets in the last 2-3 years, funds have flowed through the RIDF mechanism to bolster and create tangible physical assets in the rural sector. To that extent, the fund has been useful to the State Governments who have identified the priorities in creating tangible assets in the rural sector. But in the last year, and the year before last after we announced the policy on agriculture lending, most of the banks which were contributing to the RIDF have been able to utilize their funds for agriculture or priority sector lending because that is advantageous to them in terms of profitability."

25. Though scheduled commercial banks are required to extend a minimum of 18 percent of their net banking credit to the agricultural sector, the actual quantum of such lending has been to the extent of 15.7 percent and 12.1 percent in the case of public and private sector banks respectively during 2004-05. With specific reference to the agricultural credit extended by Private Sector Banks, the Committee note that the quantum of such credit extended by the banks has declined from 14.2 percent in 2003-04 to 12.1 percent in 2004-05.

26. An issue of concern noticed by the Committee is the fact that the net accruals to the Rural Infrastructure Development Fund (RIDF) on account of the deposits made by scheduled commercial banks to compensate the shortfalls in meeting the agricultural lending targets has been witnessing a steady increase viz., from Rs. 3874.09 crore (RIDF-IX) to Rs. 5836.25 crore (RIDF-X) and Rs. 6174 crore (RIDF-XI) . What the Committee feel to be worrisome in this regard is the fact that a number of public sector banks too which include, the Bank of Baroda, Canara Bank and Corporation Bank have been making deposits amounting to hundreds of crores of rupees to the RIDF on a continued basis owing to the inability in meeting the agricultural lending targets. As admitted by the representatives of the Ministry of Finance, the RIDF deposits and accruals, which are intended to create tangible assets in the rural sector, can not be perceived to be a viable alternative to the extension of credit facilities to the farming community. The Committee, therefore, emphasise on the need for evolving an effective means for ensuring that the Banks do not deviate from the mandated level of disbursement of credit to the agriculture sector and the weaker sections. In the opinion of the Committee, the need to ensure that Banks abide by the mandated level of extending agricultural credit acquires added importance in view of meeting the envisaged target of doubling the flow of credit to agriculture sector by 2006-07.

27. With specific reference to the Budget announcement of extending agriculture credit at 7 percent rate of interest, the

Committee note from the information furnished that the modalities relating thereto are being worked out in consultation with the Bankers and NABARD. The Committee wish to be apprised of the policy measures finalised for giving effect to the proposal for enabling flow of agricultural credit at the interest rate of 7 percent.

Debt Recovery Tribunals – Disposal of pending cases and filling up of vacancies

28. The Debts Recovery Tribunals (DRTs) have been established under the provisions of the Recovery of Debts Due to Banks and Financial Institutions Act, 1993 for speedy adjudication and recovery of debts due to Banks and Financial Institutions. As on 31.12.2005 twenty-nine Debts Recovery Tribunals and five Debts Recovery Appellate Tribunals are functioning throughout the country except the State of Jammu and Kashmir.

29. In the reply to the recommendation made by the Committee in the 16th Report (Demands for Grants 2005-06), on issues relating to enabling for speedy disposal of cases by DRTs, the Ministry of Finance, inter alia stated:

> "The issues of speedy disposal of pending cases is being taken up with Chairpersons of DRATs and presiding officers of DRTs so that the number of pending cases can be reduced… A proposal to amend the DRT Act and DRT (Procedure) Rules to improve the recovery system is also under consideration."

30. Asked about the number of cases pending in DRTs as on date vis-à-vis the number of cases pending a year ago, the Ministry of Finance, furnished the following information:

> "As on 31.12.2005, 27,807 cases were pending against 30,531 cases as on 31.3.2004 pending in various DRTs."

31. As informed by the Ministry of Finance, the amounts in dispute in the 27,807 cases pending in various DRTs totals to Rs. 92,671.42 crores.

Questioned about the time frame for disposal of cases and policy measures prepared or taken for enabling speedy disposal of cases, the Ministry, in reply stated:

> "Debts Recovery Tribunals (DRTs) being quasi judicial bodies, the proceedings are held in accordance with the procedure laid down in Chapter IV of the Recovery of Debts Due to Banks and Financial Institutions Act, 1993 (DRT Act). While efforts are made by the Tribunals to dispose of cases in accordance with Sub-section (24) of Section 19 of the DRT Act which lays down a time frame of 180 days from the date of receipt of application, there are instances where it has not been possible for the Tribunals to adhere to this time limit and as such a time frame by which these cases are likely to be cleared cannot be indicated, as proceedings before the Tribunals are of quasi-judicial nature."

32. Asked to detail the vacant posts in DRTs, the Ministry, furnished the following information:

Sl.No.	Name of DRT	Reasons for occurrence of vacancy
1	Aurangabad	Completion of tenure of incumbent.
2	Bangalore	Completion of tenure of incumbent.
3	Chandigarh	Completion of tenure of incumbent.
4	Coimbatore	Repatriation of incumbent.
5	Jaipur	Completion of tenure of incumbent.
6	DRT-II, Kolkata	Completion of tenure of incumbent.
7	DRT-I, Mumbai	Repatriation of incumbent.
8	Nagpur	Completion of tenure of incumbent.
9	Visakhapatnam	Completion of tenure of incumbent.

33. Asked to furnish details of the current status of the process for filling up the vacant posts, the Ministry , in reply informed:

> "The selection for the posts of Presiding Officer in Debts Recovery Tribunals (DRTs) is made by a Selection Committee chaired by the Chief Justice of India or a Judge of the Supreme Court nominated by the Chief Justice. Selection has already been made in respect of the existing 8 vacancies. Approval has already been received in case of 2 DRTs and pre- appointment formalities are to be completed. Necessary approval of the competent authority is being awaited in 6 cases. 9th vacancy has been advertised and the applications received in response to advertisement are being processed."

34. While examining the Demands for Grants (2005-06), the Committee were informed that the matters pertaining to speedy disposal of cases pending with the Debt Recovery Tribunals (DRTs) were being taken up with the Chairpersons of DRATs and the Presiding Officers of DRTs. A proposal for amending the DRT Act and DRT (Procedure) Rules with a view to improving the recovery system was also informed to be on the anvil. The Committee, however, feel constrained to note that detailed information on the outcome of the efforts in this regard, including the changes proposed in the DRT Act and the related rules and procedures have not been furnished by the Ministry.

35. The Committee note that presently, as many as 27,807 cases involving a total amount of Rs. 92,671.42 crores in dispute are pending adjudication with the DRTs. The Committee further note that though sub-section (24) of section 19 of the DRT Act stipulates a time frame of 180 days from the date of receipt of the application for clearing cases, the stipulation is very often, not adhered to. Ensuring speedy and effective system of disposal of cases being of utmost importance, the Committee once again emphasise on giving focused and serious attention to address the problems ailing the DRTs.

36. The Committee also note from the information furnished that presently there are nine vacancies of Presiding Officers in various DRTs. While seven of the vacancies have arisen owing to the completion of the tenure of the incumbents, two vacancies are said to have resulted due to the repatriation of the officers concerned. As informed by the Ministry, action is underway for filling up the vacant posts. The Committee feel that initiation of advance action for filling up the vacancies in the DRTs should not be difficult, particularly when the tenure of the incumbents is known before hand. The Committee, therefore, emphasise on evolving a viable system of initiation of advance action for filling up the vacancies in the DRTs without any time lag in demission of office by the serving officers and the new incumbents taking charge. Adoption of such a policy measure would contribute in ensuring that the work of the DRTs is not hampered.

Micro finance – SHGs

37. To provide the rural poor accessibility to credit from the banking system and for alleviating poverty, NABARD in 1992 had started a programme of linking SHGs of the rural poor with banks. Over the years, the SHG-Bank linkage programme has emerged as the major micro-finance programme in the country. In all 554 banks (47 commercial banks, 177 RRBs and 330 co-operative banks) are now actively involved in the operation of this programme.

38. The following table as given in the Economic Survey, 2005-06, highlights the progress of SHG – Bank linkage programme.

Progress of the SHG-Bank linkage programme

	SHG Financed by banks (No.)		Bank Loan (Rs. Crore)	
Year	During the year	Cumulative	During the year	Cumulative
1992-93	32995	32995	57.07	57.07
1999-00	81780	114775	135.91	192.98
2000-01	149050	263825	287.89	480.87
2001-02	197653	461478	545.47	1026.34
2002-03	255882	717360	1022.34	2048.68
2003-04	361731	1079091	1855.53	3904.21
2004-05	539365	1618456	2994.25	6898.46
2005-06#	211391	1829847	1420.67	8319.13
#upto Dec – 31, 2005				

39. On the prospects of SHGs-Bank linkage programme as a commercial proposition, the Ministry of Finance furnished the following information:

> "Under the SHGs- Bank linkage programme, banks are given operational freedom to finance the SHGs that qualify the grading norms prescribed by each bank. Secondly, the programme does not involve any subsidy. Banks are thus free to finance SHGs based purely on commercial and financial considerations. Under the programme banks have been asked to formulate Corporate Plan under SHGs - Bank linkage programme. Given the high recovery rate, banks are increasingly viewing financing SHGs as an attractive business proposition rather than a target oriented

programme. The business prospect of the SHGs - Bank linkage programme can be gauged from the following facts :

- As on 31 December 2005, 18.29 lakh SHGs had availed cumulatively credit from banks to the extent of Rs. 9,636.76 crore. During 2004-05, under the SHGs - bank linkage programme banks extended credit to 5,39,365 new SHGs and 2,58,092 existing SHGs involving credit flow to the tune of Rs.2994.25 crore.
  - Recovery rate of SHGs loans is above 95% on an average.
  - Almost all the commercial banks have incorporated SHGs financing in their corporate policy."

40. Detailing the aspects of the strategy formulated/contemplated to enable banks to reach out to rural poor to let them avail the benefits of micro-credit facilities from banks and SHGs, the Ministry in reply stated:

"SHGs bank linkage programme facilitated by NABARD through banks has emerged as the fastest growing microfinance programme in providing financial services to the poor. However, with the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, RBI has asked banks to use the services of civil society organisations like non-governmental organisations/ Self Help Groups (NGOs/SHGs), micro finance institutions (MFIs) and other civil society organisations as intermediaries in providing financial and banking services through the use of Business Facilitator and Correspondent models. Banks have been asked to devise their own schemes under the Banking Correspondent model.

The Finance Minister in his Budget Speech for 2006-07 has proposed appointment of Committee on Financial inclusion. To bring more households within the banking fold."

41. Asked about the reasons behind NGOs emerging as a major facilitator in the promotion and growth of the SHG Concept, the Ministry in reply stated :

"Apart from NGO, the grass root functionaries of various line departments of State Govt. Agencies have also promoted a large number of SHGs, which have been financed by the banks. NGOs were traditionally engaged in various social sector interventions in literacy, health, family welfare programmes, etc., in rural areas. Their proximity and intimacy with the rural masses was already established. NABARD encouraged NGOs through provision of grant assistance, to organise and promote SHGs as an add-on activity. Many NGOs have found the SHGs to be a proper community based organisation to deliver their social services inputs as well."

42. The Micro-Finance Development Fund was re-designated as Micro Finance Development and Equity Fund (MFDEF) and the fund size was increased to Rs 200 crore. Asked to furnish details of utilisation of corpus of Rs. 200 crores of MFDEF for purpose of infusing capital into MFIs, the following information was furnished:

"During the year, 2000-01 the Micro Finance Development Fund was set up in NABARD with an initial corpus of Rs.100 crores from NABARD, RBI and select commercial banks in the proportion of 40:40:20. During the year 2005-06 the MFDF was re-designated as Micro Finance Development and Equity Fund [MFDEF] and the fund size was increased to Rs.200 crore with an additional contribution of Rs.100 crore from NABARD, RBI and commercial banks in the same proportion. A summary of the utilization of MFDEF is given in the table below:

Rs. Crore

Sr no	Particulars	Period	Amount
1	Cumulative Utilisation	31 March 2004	23.09
2	Utilisation	During the year 2004-05	8.99
3	Cumulative utilisation	31 March 2005	32.08
4	Utilisation	During 2005-06 (upto 31 Dec. '05)	6.94
5	Cumulative utilisation	31 December 2005	39.02

43. Asked to detail the reasons behind the wide regional variation between the north and the south-in regard to the spread and growth of the SHGs – Bank linkage programme and to specify policy measures being pursued for strengthening the programme in areas/regions where it has not gained ground, the Ministry inter alia made the following submission:

"Some of the main reasons for wide variations between the North and the South are as follows :

- The presence of a large network of NGOs good in southern part of the country,
- A pro-active role played by many State Govts. in southern part of the country in formation and linkage of SHGs in their States,
- Presence of strong cultural and social practices among the rural poor in the southern states.

44. It had also been stated in this regard, as under:

"in order to ensure regional balance NABARD has identified 13 priority States for upscaling the SHG- Bank linkage programme. On account of this, the position has been changing over the years. As on 31 March 2005,

6.68 lakh SHGs had been credit linked in 13 priority States of Northern part of the country and their share in the total linkage of SHGs has recorded an uptrend as is evident from the following table :

Cumulative Growth in SHG-Bank linkage in 13 Priority States

States	March 2002	March 2003	March 2004	March 2005	Dec. 2005
Assam	1,024	3,477	10,706	31,234	39,372
Bihar	3,957	8,161	16,246	28,015	29,848
Chhattisgarh	3,763	6,763	9,796	18,569	27,960
Gujarat	9,496	13,875	15,974	24,712	27,196
Himachal pradesh	5,069	8,875	13,228	17,798	19,181
Jharkhand	4,198	7,765	12,647	21,531	26,188
Maharashtra	19,619	28,065	38,535	71,146	88,209
Madhya pradesh	7,981	15,271	27,095	45,105	49,368
Orissa	20,553	42,272	77,588	1,23,256	155,343
Rajasthan	12,564	22,742	33,846	60,006	69,551
Uttar pradesh	33,114	53,696	79,210	1,19,648	127,883
Uttaranchal	3,323	5,853	10,908	14,043	15,675
West bengal	17,143	32,647	51,685	92,698	112,013
Total for priority states	1,41,804	2,49,462	3,97,464	6,67,761	787,787
All india	4,61,478	7,17,360	10,79,091	16,18,456	18,29,847
% share in all india	31%	35%	37%	41%	43%

45. Asked about the reasons behind the regional variations in the growth of the Self Help Groups, Bank Linkage Programme, the Special Secretary, Financial Sector, Ministry of Finance submitted as follows:

> "As regards Self-Help Groups (SHGs), the policy has been to try and encourage SHGs to bring about credit linking of SHGs. In fact, the Finance Minister had announced in the last year's Budget speech about a legislation for micro-financing institutions also. That legislation, in fact, is getting ready and we hope to introduce it in the Parliament very soon. Actually, why they have done better in the Southern States is because a large number of very aware NGOs were operating there. But now, in parts of UP, Madhya Pradesh, Chattisgarh, Rajasthan also, NGOs have become very active. In fact, the branches of NGOs operating in the South have permeated to these areas. We are fairly hopeful that the offtake here in the Northern States will also be substantial."

46. As the SHGS -bank linkage programme' is mainly intended to meet the credit needs of the lower sections of the society, the Ministry were asked whether it was not essential to prescribe 'a reasonable lending rate' to the SHGs rather than leave the matter to be decided upon by Banks. In response, the Ministry of Finance inter alia furnished the following in a written reply:

> ‘The main aim of SHGs bank linkage programme is financial inclusion by making financial services available to the unreached poor in the rural society, through formal financial institutions mainly banks. Existing RBI guidelines on interest rate regime for primary lending institutions like RRBs and cooperative banks provide complete freedom to lending institutions to determine their own lending rates. However, the commercial banks cannot charge more than their prime lending rate (PLR) on all loans upto Rs 2.00 lakh as per existing RBI guidelines. Interest rates charged by banks to SHGs range from 8% to 12% and this range is gradually reducing with increased demand for credit over the years. The interest rates charged by the banks take into account the average cost of funds, transaction costs, provisioning for NPA [risk costs] and a small operating margin’.

47. On the aspect of interest chargeable on credit extended to SHGs, the Special Secretary, Financial Sector, Ministry of Finance, stated as under during evidence:

> “Interest rates being charged by the SHGs were, in fact, fairly high. The banks are providing them at BPLR. What is happening is that their own costs were fairly substantial. So, we are trying to bring it down to a level of roughly, that the maximum that they provide would be in the range of about 6 to 8 per cent to the cultivators which means he provides it at the doorstep, at the time he requires it, with no other routine hassles which the cultivators would have to face when he approaches a formal institution. In approaching a formal institution what was happening was that he was losing mandays going up, filling up forms and things like that. That problem is being obviated now.”

48. On the safeguard measures available/contemplated to prevent instances/possibility of coercion in recovering loans extended to SHGs, the Ministry of Finance stated as follows in reply:

> “Banks are sanctioning loans to SHGs based on a rating obtained by them on evaluation of credit absorption capacity, credit need, financial discipline of the SHGs, democratic functioning of the SHGs, healthy rotation of funds within the SHGs, regularity in savings and credit, etc. It has been observed that the recovery rate of SHGs loans granted by commercial banks, RRBs and DCCBs following these stringent norms is high in the range of 90% to 100%. The default rate under SHGs - bank linkage programme is negligible.

48 (A). On the details of the statutory framework proposed for the purpose of promotion, development and regulation of the Micro Finance Sector as per the announcement made in the Budget 2006-07, the Ministry of Finance informed that Micro Finance Institutions, other than the commercial banks, regional rural banks and cooperative banks which purvey the major portion of micro credit, are generally registered as registered Society (registered under Societies Registration Act, 1860), Trust (registered under Indian Trust Act, 1880 etc.), NBFCs (either registered under Section 25 of the Companies Act, 1956 or registered under Companies Act, 1956 specifically for undertaking micro finance) and a cooperative registered under the provisions of any of the State Cooperative Act or under Mutually Aided Cooperative Societies Act or Multi State Cooperative Societies Act.

49. The Committee note that the SHG – Bank linkage programme has, particularly in the recent years, emerged as a major and effective means of 'financial inclusion' by making credit facilities available to the poor in the rural areas. While the active participation of Banks, which include commercial banks, RRBs and Cooperative Banks in the operation of the programme has resulted in an increase in the cumulative disbursement of credit facilities to the needy sections from about 57.00 crore in 1992-93 to 8319.00 crore in 2005-06, which is noteworthy, the Committee feel the need to emphasise on addressing some specific issues pertaining to the 'micro finance sector'. These include, inter alia, the regional imbalances, particularly between the north and the south in the growth and spread of SHG – Bank linkage programme; the reasonability of interest charged on 'micro credit'; and regulation of micro finance institutions.

50. As evidenced from the written notes furnished by the Ministry, and the oral submissions made by the representatives of the Ministry of Finance, focussed attention is being given or is proposed for ensuring regional balance in the growth of 'SHG- Bank linkage programme'. The Committee feel the need to emphasise on ensuring that NABARD plays a pro-active role in promoting the formation of SHGs, and activising NGOs to participate in the SHG-Bank linkage programme in the States where it has not gained ground.

51. The interest rate presently chargeable on 'micro-credit' ranges from 8 to 12 percent, which in the opinion of the Committee, is not in consonance with avowed objective of the SHG-Bank linkage programme, which is aimed at benefiting the needy and poor sections of the society. While the RRBs and Cooperative Banks exercise freedom in fixing the lending rates, the 'Scheduled Banks' are to abide by the 'Bench mark rates' fixed by RBI in deciding on the lending rates. From the information furnished, the Committee note that efforts are underway to bring down the interest chargeable on 'micro-credit' to a range of 6-8%. The Committee expect that effective policy measures are evolved for ensuring that the interest chargeable on micro credit is affordable and reasonable for the needy sections.

52. The Committee further note that micro-finance institutions can be registered in the form of societies, trusts, companies or cooperatives. Regulation of these institutions being an imminent necessity, the Committee expect the proposed legislation on 'micro finance institutions' to be brought in at the earliest.

INSURANCE- Performance of Public Sector Insurance Companies (Department of Economic Affairs, Ministry of Finance)

53. Insurance Division, (Department of Economic Affairs, Ministry of Finance) is administratively concerned with the activities of both life and non-life insurance sector in India. Its functions include policy formulation in insurance sector, administration of Insurance Act, 1938, Life Insurance Corporation Act, 1956, General Insurance Business (Nationalisation) Act, 1972, Insurance Regulatory and Development Authority Act (IRDA), 1999; periodic review and monitoring of the performance of the public sector insurance companies; appointment of Chief executives and directors on their boards, service conditions of insurance employees, coordination of vigilance activities in nationalised insurance corporation/companies; framing of rules under the IRDA Act, 1999 and appointment of chairperson and members of the IRDA.

54. The information furnished by the Ministry on the total premium income in life and non life segments for both public and private sector insurance companies in each of the last three years is shown in the tables below:

Gross Premium Underwritten by Life Insurers

(Rs. in crore)

Life Insurers	2002-03	2003-04	2004-05
Private Sector	1109.62	3120.32	7727.51
Public Sector	54628.49	63167.60	70901.89
Grand Total	**55738.11**	**66287.92**	**78629.40**

Gross Premium Underwritten by Non-Life Insurers

(Rs. in crore)

Non-Life Insurers	2002-03	2003-04	2004-05 (Prov.)
Private Sector	1341.62	2257.83	3507.64
Public Sector	12556.29	13337.09	13972.96
Grand Total	**13897.91**	**15594.92**	**17480.60**

55. Asked to furnish details of the market share of life and non-life segments for both private and public sector insurance companies during the last three years, the Ministry furnished the following details :

Market Share (%share)

	2002-03	2003-04	2004-05 (Prov.)
Non-life Insurers			
Private Sector	9.65	14.48	20.01
Public Sector	90.35	85.52	79.93
Total	100.00	100.00	100.00
Life Insurers			
Private Sector	1.99	4.71	9.83
Public Sector	98.01	95.29	90.17
Total	100.00	100.00	100.00

56. Questioned about the permissible limit of management expenses of public and private sector general insurance companies prescribed by IRDA in each of the last five years and the expenses actually incurred by the public sector insurance companies in each of the last five years vis-à-vis the limits prescribed by IRDA the Ministry furnished the following details:

"As informed by IRDA, the details of the permissible limit of Management Expenses and Actual Management Expenses incurred by the life and non-life insurance companies are as under:

NON-LIFE INSURANCE COMPANIES

(Rs. in crore)

		2003-04		**2004-05**	
Sl.No	Insurer	Allowable Expenditure as per Act	Actual Expenditure	Allowable Expenditure as per Act	Actual Expenditure
1	ICICI Lombard	129.74	93.14	240.09	197.84
2	IFFCO Tokio	87.13	79.53	137.32	127.71
3	TATA AIG	112.14	100.27	144.07	139.99
4	Royal Sundaram	75.55	80.03	100.00	99.16
5	Reliance	51.79	38.04	50.55	40.43
6	Bajaj Allianz	146.09	130.00	250.70	201.59
7	HDFC Chubb	40.15	46.01	57.99	65.55
8	Cholamandalam	37.34	36.92	50.49	52.36
9	United India	598.88	801.74	576.75	860.20
10	Oriental	729.69	948.78	751.88	871.54
11	National	668.91	726.69	1088.01	1127.71
12	New India	1057.28	1445.93	1160.99	1386.76

57. As per the Annual Report of the Ministry of Finance (2005-06), the post tax profit of the four public sector insurance companies fell from Rs. 1364 crores in 2003-04 to Rs. 1172 crores in 2004-05. Further, the market share of the companies declined from 85.52% in 2003-04 to 79.93% in 2004-05. As such the Ministry of

Finance were asked to state the factors attributable to the declining profits of public sector insurance companies and to detail the policy measures proposed/being undertaken to reverse the trend of declining profits of public sector insurance companies. The Ministry inter alia furnished the following reply in this regard:

> "With the opening of the insurance sector in the year 2000, many private sector insurance companies have entered the market which resulted in the decline in the proportionate share of public sector companies. The main reasons for the decline of profits of the four public sector insurance companies in 2004-05 as compared to 2003-04 are softening of interest rates, higher growth in loss making port-folio and higher provisions in view of coming wage settlement.

58. On the measures proposed for reversing the declining trend of profitability of the Public Sector General Insurance Companies, the Ministry informed as under:

> "The Government has proposed to enter into an understanding with the managements of these companies to fix certain performance parameters to measure their achievements. These include growth in business, increase in the investment income, reduction of underwriting losses, management expenses etc. IRDA has also proposed to de-tariff the premium rates w.e.f. 1st January, 2007. This would force public sector companies to prepare for professional underwriting and ensuing competition."

59. Asked to account for the declining profits of public sector insurance companies, the representative of the Ministry of Finance while tendering evidence stated as under:

> "As regards insurance, it is a fact that general insurance companies have lost on profits. But just like what was done by the Government with the banks where they executed an MoU with the banks, and that exercise seems to have worked fairly well, we are going to be making a review of those MoUs by the end of this month when the banks declare the results. A similar exercise is being undertaken with the insurance companies - general insurance and life insurance companies. The parameters which have been laid out are: the growth of business, prudent underwriting of business, better yield on investments and decline in management expenses. Sir, a Statement of Intent has been proposed by the insurance companies. We have to give approval which will probably be done by the end of next week. We are fairly sanguine of the fact that these insurance companies will be able to bolster their profits in the current financial year."

60. Asked to furnish details of the Universal Health Insurnace Scheme (UHIS) viz. the number of persons covered under the Scheme vis-à-vis the targets

envisaged in each of the last three years; number of claims received, settled, amounts involved and the outstanding claims in regard to the scheme; total amount paid by the Government towards subsidizing the premium amounts under the scheme, the Ministry furnished the following details:

"Redesigned Universal Health Insurance Scheme (UHIS) for BPL families only was announced in the Budget of 2004-05. It provides a reimbursement of hospitalization expenses upto Rs.30,000 individually or collectively to the members of the family, personal accident cover of Rs.25,000 for death of earning head of family and compensation due to loss of earnings of earning member @ Rs.50 per day upto a maximum of 15 days. The premium for the scheme is Rs. 365/- for individual, Rs. 548/- for a family of five and Rs. 730/- for a family of seven. The subsidy given by the Government is Rs. 200/- for individual, Rs. 300/- for a family of five and Rs. 400/- for a family of seven.

In 2003-04 the Scheme was open to general public with facility of subsidy of Rs.100/- only to BPL families. The target of 10 lakh families for 2004-05 was not achieved. Fresh target was not fixed but the target of 10 lakh as in the previous year was taken for 2005-06, which also could not be achieved. Details pertaining to coverage under UHIS and collection of premium are as under:

UHIS – Premium figures

Years	No. of Policies	No. of families	No. of Persons	Premium (Rs. in crore)
2003-04 (BPL)	327562	416688 (9252)	1161604	19.32
2004-05	52772	65718	182641	2.81
2005-06 (Upto Feb. 2006)	59450	68296	221385	2.29

(ii) Number of claims reported, settled, amounts involved and the outstanding claims in regard to the scheme in each of the last three years are as under:

UHIS – Claim figures

(Rs. in lakhs)

Years	Claims Reported		Claims settled		Claims Outstanding	
	No.	Amount	No.	Amount	No.	Amount
2003-04						
2004-05	781	N.A.	668	40.72	113	N.A.
2005-06	5507	N.A.	2320	112.20	3197	N.A.

(iii) Under the UHIS, a subsidy of Rs. 45.00 lakhs (Rs. 180.00 lakhs) was released in March, 2004 to each of the four public sector general

insurance companies for covering BPL families. As the subsidy could not be fully utilized in 2003-04, no provision for subsidy was made in 2004-05 and 2005-06. The provision of Rs. 3.00 crore has been made for the year 2006-07.

61. The Committee are concerned to note that the post tax profit of the four public sector general insurance companies declined from Rs. 1364 crores in 2003-04 to Rs. 1172 crores in 2004-05. The market share of the companies too come down from 85.52% in 2003-04 to 79.93% in 2004-05 which amounts to a fall of 5.59% as compared to the previous year. The Committee had, while examining the Demands for Grants of the Ministry of Finance for the year, 2004-05 laid stress on the need for upgrading the operations and quality of services of the non life public sector insurance companies in view of the slipping market share of the companies, which was to the extent of 4.5% in the year (2004-05). What the Committee find to be particularly disturbing to note is also the fact that unlike the case of non-life private sector insurers, who have, more or less met the limits of allowable management expenditure, the management expenses incurred by the four public sector general insurance companies has been well above the permissible limits in 2003-04 and 2004-05.

62. The declining profits, market share and excessive management expenditure of the public sector general insurance companies being a matter of serious concern, the Committee understand that the Government proposes to address issues ailing these companies by devising an 'MoU' to be entered into with the managements of the companies. The parameters of the proposed MoUs, as informed to the Committee, would include, inter alia, business growth targets, prudent underwriting of business, yields on investment and management expenses. The Committee wish to be apprised of the progress on the policy measures contemplated for reversing the declining profit trend and market share of the public sector general insurance companies.

63. The Committee feel dismayed to note the facts and figures pertaining to the implementation of the Universal Health Insurance Scheme (UHIS), which as announced in the Budget, 2004-05, is intended to aid the BPL households by providing the beneficiaries a personal accident cover and reimbursement of hospitalisation charges. The fact that the targeted number of 10 lakh beneficiaries under the scheme for the year 2004-05 could not be achieved even after shifting it over to the subsequent year, 2005-06, and as

many as 3197 of the total of 6288 claims reportedly are pending settlement is, in the opinion of the Committee indicative of serious flaws in operationalising the scheme. Moreover, figures would show that the public sector insurance companies received premium payments under UHIS (borne by Government) over last three years amounting to Rs. 24.42 crores while claims paid were only of the order of Rs. 1.59 crores. The Committee, therefore, desire that the various aspects of the Universal Health Insurance Scheme be assessed in detail and remedial measures taken by redesigning and reformulating the scheme so that the needy sections are actually benefited from the scheme.

Capital Market- Investor Protection Fund under SEBI

64. The Capital Market Division, Ministry of Finance has been entrusted primarily with the responsibility of assisting the Government in framing suitable policies for the development of the capital market in consultation, inter alia, with SEBI, RBI and other agencies. It acts as the Secretariat for the High Level Coordination Committee on Financial and Capital Markets and deals with all organisational/operational matters relating to SEBI including appointment of the Chairman and members of the SEBI Board. Under the SEBI Act, 1992 the Ministry of Finance is represented on the SEBI Board. The Capital Markets Division provides inputs to the Ministry's representative on items placed before the Board. The Ministry of Finance is also represented on the Primary and Secondary Market Advisory Committees of SEBI. Inputs regarding policy issues related to the capital market are provided through these channels.

65. The Finance Minister, in the Budget Speech 2006-07, announced the setting up of an 'Investor Protection Fund' under the aegis of SEBI, which is to be funded by fines and penalties levied by SEBI. Questioned on the reasons for seeking to constitute an 'Investor Protection Fund' when a separate fund of similar nature has been operational since long (which is also believed to have substantial accruals) under the aegis of the Ministry of Company Affairs, the Ministry inter alia submitted as follows in reply:

> "SEBI has been established with the prime objective of protection of the interests of investors in securities. However, it does not have access to public funds to discharge this responsibility adequately. The investor education and protection fund with MCA which is not available to SEBI. The penalties levied by SEBI are credited to the Consolidated Fund of India. The similar penalties levied by the PFRDA under Ordinance are credited to the subscriber education and protection fund. In order to strengthen the hands of SEBI, it was considered desirable to allow it to set up a fund for investor protection which could be credited by penalties levied under securities laws.
>
> Globally also, there is a trend to set up such funds out of the fines and penalties imposed by the Regulators. The Fair Fund established under the Sarbanes Oxley Act, 2002 of US is one such Fund. The Expert Committee constituted under the Chairmanship of Justice M H Kania, Former Chief Justice of India for considering proposed amendments to the SEBI Act has also recommended setting up of a separate IPF under the SEBI Act

66. Asked to specify whether the fines and penalties imposed by SEBI were significant enough for being utilized for undertaking activities

relating to Investor Protection, the Ministry inter alia furnished the following information:

"SEBI has informed that it has raised the following amounts as penalties:

Period	Amount realized (Rs. lakh)
29.10.2002 - 31.03.2004	2,99.92
01.04.2004 - 31.03.2005	1,72.22
01.04.2005 - 31.01.2006	62.40
Total Amount remitted to CFI	**5,34.54**

67. Questioned as to why it has not been considered prudent to transfer a part of the corpus of IPEF under the Ministry of Company Affairs to SEBI for undertaking Investor Protection activities the Ministry replied as follows:

The Joint Parliamentary Committee on Stock Market Scam and Matters Relating thereto had recommended that the Investor Education and Protection Fund established under the Companies Act should be shifted to SEBI. The matter was taken up with the Ministry of Company Affairs which was of the view that the IEPF having been set up under the Companies Act, 1956, is appropriately administered by MCA. A Committee on IEPF of MCA, after duly examining the proposal for transfer of IEPF to SEBI, did not approve the proposal. This was reported by the Ministry of Finance in its Fourth Progress Report on the Action taken on the recommendations of the JPC in July, 2005.

68. On the redressal mechanism put in place by SEBI to address the grievances of investors, the Ministry of Finance informed as follows:

"Redressal and guidance

SEBI has informed that they take up investor grievances with the companies and intermediaries concerned. These complaints lodged by the investors are acknowledged to the complainants giving therein the brief of the complaint captured for redressal. The complaints are pursued with the companies/ entities for redressal through vigorous follow up. SEBI holds meetings with the company/ entity to emphasize the importance of timely redressal of investor complaints.

In case of recalcitrant companies who have failed to redress the investor complaints, action had been taken by SEBI within the ambit of law. Adjudication proceedings have been initiated against 33 companies for imposition of monetary penalty. Prohibitory orders have also been passed against 12 companies debarring 53 directors from associating with the securities market. In some cases, prosecutions have also been launched against companies for non-redressal of investor grievances.

Guidance cell
The SEBI office also provides guidance to investors in lodging complaints against companies and entities. This cell also has a dedicated telephone line manned by a senior level manager who provides guidance to the investors who call in from remote locations.

Internet based response system

SEBI has further informed that a simple and effective system of internet based response to investor complaints has been set up. On filing of a complaint electronically, a system generated acknowledgement letter is issued to the investor."

69. The Committee note that the proposal to set up an 'Investor Protection Fund', under the aegis of the Capital Market regulator, SEBI as announced in the Budget 2006-07 is an imminent necessity as the prime objective of the 'regulator' is to protect the interests of the investors in the securities market. As per the proposal relating to the establishment of the 'Fund', the amounts required for undertaking investor protection activities and measures are to be generated from the fines and penalties imposed by SEBI.

70. The Committee are of the view that particularly in the light of the surge being witnessed in the capital market operations in the recent past, and also aberrations or scams such as the recent 'IPO – demat scam', it is absolutely essential on the part of SEBI to initiate investor protection activities in a big way. The Committee, however, note from information furnished that the amounts raised by SEBI, by way of imposing penalties totals to about 534 lakhs till date. This amount, in combination with the likely accruals of the future, may, in the opinion of the Committee, be inadequate in enabling SEBI to plan and implement investor education and protection activities on a large scale. The Committee note in this regard that the proposal made earlier for shifting the 'Investor Education and Protection Fund' established under the Companies Act. 1956 and administered by the Ministry of Company Affairs to SEBI did not find favour. Given the need for undertaking investor protection and education activities in a big way by the Capital Market regulator, the Committee feel the need for impressing on the Government to ensure that SEBI is not, in any way, incapacitated in undertaking investor protection activities due to the inadequacy of funds available at its disposal.

Department of Expenditure

FRBM Act and Rules

71. The Fiscal Responsibility and Budget Management (FRBM) Act, 2003 and FRBM rules as amended through the Finance Act 2004 inter alia cast an obligation on the Government to eliminate the revenue deficit by the financial year 2008-09 by prescribing a minimum annual reduction in the revenue deficit by 0.5 percent of GDP, and reduce the fiscal deficit by an amount of at least 0.3 percent of GDP so that the fiscal deficit is not more than 3 percent of GDP by the end of 2008-09.

72. The obligations of the Government under the FRBM Act, as amended in 2004, and the FRBM rules include:

> "To eliminate the revenue deficit by the financial year 2008-09. The FRBM Rules prescribe a minimum annual reduction in the revenue deficit by 0.5% of GDP.
> To reduce the fiscal deficit by an amount by at least 0.3% of the GDP, so that fiscal deficit is not more than 3 per cent of GDP by the end of 2008-09.
> To limit Government guarantees to at most 0.5% of the GDP in any financial year
> To limit fresh additional liabilities (including external debt at current exchange rate) to 9% of GDP in 2004-05, 8% of GDP in 2005-2006, 7% of GDP in 2006-07, 6% of GDP in 2007-08."

73. By way of giving a brief account of the ways and means being pursued for meeting the fiscal correction targets, as envisaged under the FRBM Act, the Ministry of Finance, in a written response, inter alia stated as follows:

> "The medium term fiscal projections are in line with the commitment made in Budget 2005-06 to resume the process of fiscal correction with effect from 2006-07 and achieve the FRBM goals by 2008-09. The deficit indicators in BE 2006-07 are consistent with the FRBM roadmap, which envisages an annual reduction of atleast 0.3 percentage points in fiscal deficit and 0.5 percentage points in revenue deficit.
>
> On account of Twelfth Finance Commission award and other relevant factors the Government had projected 2005-06 BE Revenue Deficit to be at 2.7 percent i.e. at the same level as RE 2004-05. Fiscal deficit was budgeted to decline from 4.5 percent in RE 2004-05 to 4.3 percent in BE 2005-06. However, the Revenue Deficit and Fiscal Deficit at RE 2005-06 are estimated to be lower at 2.6 percent and 4.1 percent respectively. This improvement in fiscal position is being

achieved largely on account of revenue receipts being on target and compression of non-plan expenditure. Demands for additional plan expenditure during the year, including the routing of EAP loans to States through the Consolidated Fund of India, have been met from savings within the BE 2005-06.

The Central Government has continued to follow prudent fiscal policy comprising (I) a balanced tax structure based on reasonable rates with minimal exemptions covering a wider class of taxpayers and (ii) an expenditure policy that aims to moderate growth in non-developmental expenditure and adequately provide for pressing social and infrastructure needs of the economy. "

74. In response to a specific query on whether the Government has been complying with the stipulation of limiting 'Government guarantees' to 0.5% of the GDP in each financial year, as envisaged under the FRBM Act 2003 and FRBM Rules, 2004, the Ministry of Finance furnished the following reply":

"The position of guarantees given by the Government as on 31.3.2005 was reported in the Receipts Budget 2006-07. As reported, Guarantees outstanding at the end of 2004-05 were Rs.1,07,957.43 crore vis-à-vis amount of Rs.90,028.07 crore as on 31st March, 2004. The net accretion of Guarantee stock during 2004-05 was Rs.17,929.36 crore viz., 0.57% of the GDP for that year. The minor deviation from the ceiling of 0.50% during 2004-05 was mainly on account of guarantees given in favour of Food Corporation of India for procurement operations to ensure food security."

75. Questioned further whether the obligation of limiting additional liabilities (inclusive of external debt) are being limited, and were likely to be limited in the coming years to meet the stipulations of the FRBM Act, viz. 8% of GDP 2005-06, 7% in 2006-07 and 6% in 2007-08, the Ministry in response, submitted as under:

"The additional liabilities have been kept within the limit in 2005-06. In so far as the position for 2006-07 is concerned, subject to reasonable assumption regarding exchange rate variation, the FRBM target is budgeted to be met. All efforts would be made to adhere to the target for financial year 2007-08 also."

76. Under the FRBM Act, the Government is obliged to take remedial measures to check deterioration in fiscal position, which may not only include measures to increase revenues but also contain expenditures. Touching upon aspects relating to expenditure management vis-à-vis the stipulations of FRBM Act, the Finance Secretary, stated as follows during evidence:

".. this year is being concentrated upon in terms of fiscal consolidation. We do hope that last year the expression used in terms of the journey along the path of FRBM Act was the "pause button" because in the previous year the targets which were overachieved, the standards which were
reached in terms of fiscal deficit and revenue deficit had to be practically frozen. We could not improve upon them, but I am glad to report to the Committee that this pause button has been converted into the 'play button'. We are on the way to achieve our targeted milestones and as I would have the occasion to furnish the details, should the Committee be pleased to get them, we will be back on the path at the close of the current financial year of the targeted fiscal and revenue deficit.
Mr. Chairman Sir, the hon. Committee would also be glad to know that the expenditure management reforms are being undertaken, the highlights of which are decentralisation, delegation of more powers, simplification of procedures, transparency and accountability and increasing use of e-governance. We will be happy to furnish the details in this behalf."

77. The Twelfth Finance Commission had inter alia recommended that:

Each State should enact a fiscal responsibility legislation, which should, at a minimum, provided for:

(i) Eliminating revenue deficit by 2008-09.

(ii) Reducing fiscal deficit to 3 percent of GDP or its equivalent;

(iii) Bringing out annual reduction targets of revenue and fiscal deficits;

(iv) Bringing out annual statement giving prospects for the State economy and related fiscal strategy; and

(v) Bringing out special statements alongwith the budget giving in detail the number of employees in Government, public sector, and aided institutions and related salaries.

78. Questioned on the position relating to the compliance of the State Governments in implementing the recommendations of the Twelfth Finance Commission, the Ministry of Finance inter alia stated as in reply:

"Government of India have accepted the recommendations of the Twelfth Finance Commission (TFC) in respect of the debt consolidation and relief facility for States. According to this Scheme, the central loans of States disbursed up to 31.3.2004 and outstanding as on 31.3.2005 are to be consolidated for a fresh term loan, with

repayments in 20 equal instalments carrying an interest rate of 7.5%, subject to States enacting their Fiscal Responsibility and Budget Management (FRBM) Act with certain core provisions. In addition, on reduction of revenue deficit by States, as envisaged by TFC, states

also become eligible for debt waiver, subject to States' fulfiling certain conditions. Government of India has already circulated detailed guidelines on the scheme and a Central Monitoring Committee has been set up to consider the FRBM Acts, debt consolidation and waiver claims of States.

So far 19 States have submitted their FRBM Acts. Out of these, the Central Monitoring Committee has considered FRBM Acts of 19 States and recommended consolidation of loans to 18 states namely Andhra Pradesh, Assam, Chattisgarh, Gujarat, Haryana, Himachal Pradesh, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Manipur, Orissa, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh, Tripura and Bihar. Information on Fiscal Correction Path from Uttaranchal is stil awaited for effecting consolidation.

The Debt Consolidation and Waiver Scheme also has an in-built incentive as States get the benefits in the form of debt consolidation and waiver upon the States enacting their FRBM Acts and reducing their revenue and fiscal deficits and fulfilling certain other conditions."

79. On issues relating to waiver of debt/granting relief to the States on account of enacting fiscal responsibility legislations, the Finance Secretary, stated as follows during evidence:

"…the details of those States which have come up with requisite action and have received the kind of support that is envisaged by the Finance Commission. Sir, the following States have enacted FRBM. I may submit that FRBM enactment is the first fundamental pre-requisite for any State being eligible for any kind of relief. The first thing is this. Therefore, States like Andhra Pradesh, Bihar, Chhattisgarh, Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan, Tamil Nadu and Uttar Pradesh, have brought on their statute book the FRBM Act. These are non-special category States also. Out of the special category States, which have brought on the statute book the FRBM Act are Assam, Himachal Pradesh, Manipur, Tripura and Uttaranchal. These 19 States are in the first category of those which can ask for consolidation of their debt. This has been awarded to them. Now comes the greater relief of waiver, that is, State shall not pay back to the Government of India the loan, provided it has achieved two things. One is, fiscal deficit will not be higher than 2004-05 level, and the revenue deficit, as the hon. Member pointed out, will be according to the path envisaged in the Act itself, that is, 0.5 per cent reduction every year in order to see that the revenue deficit is eliminated by the year 2008-09. So, Sir, the States which have received the waiver having complied with the obligations of the FRBM Act are Chhattisgarh, Karnataka, Orissa, Rajasthan and Uttar Pradesh. These debt waivers have been ordered in their cases. Under examination and on the anvil are the claims of the following eight States: Bihar, Gujarat, Haryana, Madhya Pradesh, Punjab, Tamil Nadu, Himachal Pradesh and

Manipur. Currently, my colleagues are working on it. They are scrutinising the claims with the budget documents and reading them along with their FRBM Acts to see whether the paths charted out by themselves is being adhered to or not. This, in a month's time, as I said, in any case before 30th June, will have been given. The point is, the States are flush with funds."

80. The Committee note that unlike the previous year 2005-06, the projections of revenue and fiscal deficit reduction targets of the current year 2006-07 whereby the revenue and fiscal deficits are targeted to be brought down from 2.6 % of 2.1 % of the GDP, and from 4.1 % to 3.8% of GDP respectively are in consonance with the FRBM road map which envisages to eliminate revenue deficit and bring down fiscal deficit to a level below 3% by 2008-09. The Committee had, in their report on the Demands for Grants of the Ministry of Finance for 2005-06, emphasized on strict adherence with the fiscal correction targets envisaged under the FRBM Act and Rules.

81. The FRBM Act is a comprehensive legislation covering rules relating to borrowing, deficit and debt. The Act casts an obligation on the Government to monitor the fiscal position not only by initiation of measures to increase revenues, but also by containing expenditure. The Committee note that while the FRBM rules limit the guarantees extendable by the Government to a maximum of 0.5% of the GDP in a year, the net accretion of guarantees at the close of 2004-05 has been slightly higher viz. 0.57% of the GDP. With regard to limiting the additional liabilities, which is budgeted at 7% and 6% of the GDP for 2006-07 and 2007-08 respectively, the Committee note that the Government is hopeful of achieving these targets subject to certain assumptions on exchange rate variations etc. The Committee feel the need to once again emphasise on ensuring that the fiscal corrections targets and measures stipulated under the FRBM Act and Rules are strictly adhered to. The Committee also wish to be kept apprised of the policy measures pursued for adhering to, and achieving the FRBM goals. As assured by the Finance Secretary during evidence, the Committee also wish to be apprised of the expenditure management reforms being undertaken and their effectivity in curtailing non-developmental expenditure.

Department of Disinvestment

1. Policy on Disinvestment

82. As per the Annual Report of the Ministry of Finance, 2005-06, the National Common Minimum Programme adopted by the Government with respect to the public sector includies disinvestment of Government's equity in Central Public Sector Enterprises (CPSEs).

83. Explaining the policy of Disinvestment, the Secretary, Department of Disinvestment during the oral evidence stated as under:

> "The present policy of the Government is mentioned in the National Common Minimum Programme. We feel it is very clear and it is not ambiguous. The National Common Minimum Programme inter alia says that generally profit making companies will not be privatised. All privatisation will be considered on a transparent and consultative case by case basis. In accordance with this the Government has decided, in principle, to list large profitable central PSUs on domestic stock exchanges and to selectively sell small portions of equity in profitable, listed enterprises other than the navratnas so as not to disturb the public sector character of these enterprises."

84. In their outcome budget, the Ministry have stated as under:

> The National Common Minimum Programme adopted by the Government outlines the policy of the Government with respect to the Public Sector, including disinvestment of Government's equity in Central Public Sector Enterprises (CPSEs). At present, the emphasis is to list, large, profitable CPSEs on domestic stock exchanges and to selectively sell small portions of equity in listed, profitable CPSEs (other than the navratnas).

85. In this regard, the Committee recall their earlier recommendation as contained in their 1st Report on examination of Demands for Grants (2004-05) of the Ministry of Finance (Department of Disinvestment) (14th Lok Sabha) wherein the

Committee were informed that the policy as stated in the NCMP was the policy of the Government towards disinvestment. The Committee had recommended as below

> ”The Committee are not able to understand as to why the Government is wary of bringing forward a Comprehensive Policy Document which may address all the aspects such as valuation, employees welfare, etc. and which will deal with all types of PSUs. In the absence of a clear cut policy, the Government has to evolve a new methodology every time to deal with a particular situation. They are not convinced by the Government’s reply that adequate publicity has been given to the policy as stated in NCMP in the Budget Speech, interviews of the Finance Minister on TV and print media. They see no reason why the Government cannot bring the policy document before Parliament in deference to the wishes of the Committee.”
>
> “The Committee therefore reiterate their earlier recommendations urging the Government to bring out a comprehensive document on disinvestment policy to be placed before the Parliament for its approval without further delay.”

86. The Committee in this regard in their 23rd Action Taken Report had recommended as below:-

> “The Committee are not satisfied with the casual reply of the Government that the policy as stated in NCMP constitutes the disinvestment policy of the Government. They take note of the fact that Government are preparing a White Paper on the subject. They are of the view that neither the principles laid down in NCMP nor the White Paper can be a substitute for a comprehensive disinvestment policy covering all aspects such as valuation and employees welfare etc. The Committee cannot help noting that the Government chose to give a stereotyped reply on the subject. Hence, they reiterate their earlier recommendation that the Government should come out with a comprehensive disinvestment policy document without further delay and desire that the preparation of the White Paper be expedited.

87. The Committee also recall their earlier recommendation as contained in their 16th Report (14th Lok Sabha) wherein they had urged the Government to expedite the preparation of White Paper on Disinvestment of CPSEs, to be discussed in Parliament. The Committee were then given to understand that White Paper on Disinvestment was under preparation and was expected to be tabled during the Monsoon Session of Parliament 2005.

88. In their Action Taken Note the Ministry had assured again the Committee that action was being taken to table the White Paper on Disinvestment of Central Public Sector Enterprises in the Parliament during the Monsoon Session 2005.

89. The Ministry in their Action Taken statement have further stated that the matter of placing the said White Paper for information of the Parliament is under consideration of Government. They have also informed the Committee that the White Paper would be comprehensive document and detail the historical development of the disinvestment 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.

90. The Committee had recommended that unless the White Paper is approved by the Parliament, the disinvestment policy and programme will always remain opaque. They had reiterated that the Government should expedite the finalisation of the White Paper on the Disinvestment and place it in the public domain.

91. In this regard, the Government had again stated that the matter of placing the White Paper on Disinvestment of CPSEs for information of the Parliament is under consideration of the Government.

92. When asked again by the Committee as to by when the Government are likely to come out with their White Paper on Disinvestment of CPSEs, the Department of Disinvestment in a written reply submitted to the Committee on 6 March, 2006 reiterated that the matter of placing the White Paper on Disinvestment of CPSEs for information of the Parliament is under consideration.

93. The Committee regret to note that inspite of their repeated recommendations, the government have not placed the much awaited policy document on Disinvestment in Parliament. In this connection, the Committee recall their earlier recommendations in their Reports on Demands for Grants, 2004-05 as well as 2005-06 and subsequent Action Taken Reports thereon urging the Government to bring out a Comprehensive Policy document addressing aspects e.g. valuation, employee welfare etc. because in the absence of a clear cut policy, the Government is forced to evolve a new methodology every time to deal with a particular situation.The Committee also recall the Government's categoric response to their earlier recommendations wherein the Government had stated that the White Paper on Disinvestment was under preparation and was expected to be tabled during the Monsoon Session of Parliament 2005. However, as the Committee note that the proposed White Paper is stated to be still under consideration of the Government, the Committee are inclined to conclude that the government is perhaps, not keen to come out with their policy document on disinvestment in the public domain. Therefore, the Committee would like to emphatically reiterate their oft-repeated recommendation that the Government must expedite the consideration of White Paper and come out with this policy document, without any further delay. The Committee also note that the Government's emphasis is to list, large, profitable CPSEs on domestic Stock Exchanges and to selectively sell small portions of equity in listed, profitable CPSEs (other than the navratnas). They are of the opinion that it is essential that the policy of the Government on this matter is discussed in the Parliament. The White Paper should be a comprehensive document covering all aspects of disinvestment policy especially issues related to disinvestment of companies like rationale of disinvesting a company, benefits available to the retrenched employees, their other interests, possible rehabilitation.

2. National Investment Fund (NIF)

94. The Government has constituted a National Investment Fund (NIF), into which the proceeds from disinvestment of Government equity in PSEs (Public Sector Enterprises) would be channelised. As per the annual report 2005-06, the NIF would be maintained outside the Consolidated Fund of India and would be professionally managed by selected public sector mutual funds to provide sustainable returns without depleting the corpus.

95. The NIF will be operated by related Fund Managers under the 'discretionary mode' of the Portfolio Management Scheme, which is governed by SEBI's guidelines. The work of NIF is supervised by Chief Executive Officer (CEO) of NIF. An Advisory Board has also been constituted by the Government which will advise on various aspects of the functioning of NIF.

96. Asked to furnish details of the present status of the NIF, accruals therein and its utilization, the Ministry of Finance have informed as under:-

> "A resolution constituting the National Investment Fund (NIF) has been issued on 23rd November, 2005. Further steps are under way to operationalise NIF.
>
> There has been no accrual to NIF so far.
>
> 75% of the annual income of NIF will be used to finance selected social sector schemes, which promote education, health and employment. The residual 25% of the annual income of NIF will be use to meet the capital investment requirements of profitable and revivable CPSEs that yield adequate returns, in order to enlarge their capital base to finance expansion/diversification."

97. As per the Government of India Resolution dated 23.11.2005 regarding the constitution of a 'National Investment Fund', public sector mutual funds are to be entrusted with the management of the corpus of the 'fund' which is to be supervised by a CEO. When asked about the basis of selection of the public sector mutual funds, the proportion of funds that would be entrusted with for management, and the rationale for seeking to appoint a bureaucrat as CEO, the Ministry in a written reply informed as under:-

"Unit Trust of India Mutual Fund, State Bank of India Mutual Fund and Life Insurance Corporation Mutual Fund, being the three largest public sector mutual funds have been selected as Fund Managers. A multiplicity of Fund Managers has been preferred to preserve the competitive spirit between Fund Managers and to provide comparative performance yardsticks for evaluation of Fund Managers. Allocation of funds to the selected Fund Managers would be decided by CEO, NIF based on the advisory Board."

"Government has decided that the post of Chief Executive Officer (CEO) of NIF would be filled through Central Staffing Scheme. The CEO of NIF would have a supervisory role. While selecting an officer for this post, his qualifications and experience would be kept in view. It may be stated that NIF would be managed by the Fund Managers under the 'discretionary mode' of the Portfolio Management Scheme, which is governed by SEBI guidelines. A part-time Advisory Board has also been constituted to advise on various aspects of the functioning of NIF."

98. Explaining the concept of 'discretionary mode' available to Fund Managers as part of investment Strategy, the Ministry in a written reply stated as under:-

"Under the 'discretionary mode', the Fund Manager has full freedom to take investment decisions keeping in mind the investment objectives of the client and general terms of agreement entered into. Appropriate mechanism for regular review and monitoring of the functioning of NIF, emerging market trends and future prospects will be instituted."

99. The Committee have been further informed that the mechanism for audit would be authorized to certify that the funds are being properly utilized. In this regard, the Ministry, in a written reply, informed as under:-

"The mechanism for audit would be incorporated in the agreements to be entered into with the Fund Managers."

100. They have further informed in their replies to supplementary list of points as under:-

"The books of account will be audited yearly by a Chartered Accountant to ensure that the Portfolio Manager has followed proper accounting methods and procedures and that the Portfolio Manager has

performed his duties in accordance with law. The Chartered Accountant must be on the approved list of Comptroller and Auditor General (C&AG) and having experience of Treasury/Mutual Fund audit operations.

The portfolio accounts of the Portfolio Managers shall be audited annually by the Chartered Accountant and a copy of the certificate issued by the Chartered Accountant shall be given to CEO, NIF. The Chartered Accountant must be on the approved list of C&AG and having experience of Treasury/Mutual Fund audit operations.

The CEO, NIF may, if necessary, appoint a Chartered Accountant to audit the books and accounts of the portfolio manager relating to NIF transactions and the portfolio manager shall co-operate with such Chartered Accountants in course of the audit. The accounts of the Portfolio Manager may also be audited by C&AG."

101. On a query regarding the person authorized to certify that the funds are being properly utilized, the Ministry in a written reply informed as under:-

"the allocated funds would be placed at the disposal of the Fund Managers. The Fund Managers would manage the funds under the 'discretionary mode' of the Portfolio Management Scheme, which is governed by SEBI guidelines. Appropriate mechanisms for regular review and monitoring of the functioning of NIF, emerging market trends and future prospects will be instituted."

Supplementing their replies, the Ministry have further stated as under:-

"The functioning of NIF will be regulatory reviewed and monitored by CEO, NIF in consultation with the Advisory Board. A common reporting system would be developed through a single software developing agency. The Portfolio Manager shall furnish a report once a month and also a quarterly report. These reports shall contain information regarding the assets and all purchases and sales of Securities made by the Portfolio Manager, as required in accordance with Regulation 21 of the SEBI (Portfolio Manager) Regulation 1993."

102. The Committee were also informed that the NIF is expected to be operationalised in 2006-07.

103. The Committee find that the Government have already constituted a National Investment Fund into which the proceeds of disinvestments of Government equity in CPSEs would be channelised. They further note that the Government have also selected UTI Mutual Fund, SBI Mutual Fund & LIC Mutual Fund as the three largest public sector mutual funds as Fund Managers. However, the Committee feel that while the NIF is a good move, its efficacy will hinge on the disinvestment proceeds accruing to the fund.

104. In so far as managing the NIF is concerned , the Committee note the Government's decision that the post of CEO, NIF would be filled through Central Staffing Scheme. They, however, feel that as this post needs experts who are equipped to deal with technical and complex economic issues, the Government should not limit their options for appointment of CEO, NIF only to bureaucrats and consider professionals/experts from the field also for the said post. The Committee feel that, this way the fund would have better chances of being professionally managed and effectively utilized. In line with their earlier recommendation made during examination of Demands for Grants (2005-06), wherein they have stated that several important issues relating to the management of funds and utilization of the proceeds of income from the fund need to be addressed in detail, the Committee further recommend that utmost care should be taken to select competent auditors/auditing firms with proven track record for this job, and their independence must be ensured.

NEW DELHI;
19 May, 2006
29 Vaisakha, 1928 (SAKA)

MAJ. GEN. (RETD.) B.C. KHANDURI
Chairman,
STANDING COMMITTEE ON FINANCE

STATEMENT OF CONCLUSIONS/RECOMMENDATIONS OF THE STANDING COMMITTEE ON FINANCE IN THE THIRTY-SIXTH REPORT (2006-07)

Sl.No.	Para No.	Ministry/Department Concerned	Conclusions/Recommendations
1	2	3	4
1.	25, 26 & 27	Department of Economic Affairs	Though scheduled commercial banks are required to extend a minimum of 18 percent of their net banking credit to the agricultural sector, the actual quantum of such lending has been to the extent of 15.7 percent and 12.1 percent in the case of public and private sector banks respectively during 2004-05. With specific reference to the agricultural credit extended by Private Sector Banks, the Committee note that the quantum of such credit extended by the banks has declined from 14.2 percent in 2003-04 to 12.1 percent in 2004-05. An issue of concern noticed by the Committee is the fact that the net accruals to the Rural Infrastructure Development Fund (RIDF) on account of the deposits made by scheduled commercial banks to compensate the shortfalls in meeting the agricultural lending targets has been witnessing a steady increase viz., from Rs. 3874.09 crore (RIDF-IX) to Rs. 5836.25 crore (RIDF-X) and Rs. 6174 crore (RIDF-XI) . What the Committee feel to be worrisome in this regard is the fact that a number of public sector banks too which include, the Bank of Baroda, Canara Bank and Corporation Bank have been making deposits amounting to hundreds of crores of rupees to the RIDF on a continued basis owing to the inability in meeting the agricultural lending targets. As admitted by the representatives of the Ministry of Finance, the RIDF deposits and accruals, which are intended to create tangible assets in the rural sector, can not be perceived to be a viable alternative to the extension of credit facilities to the farming community. The Committee, therefore, emphasise on the need for evolving an effective means for ensuring that the Banks do not deviate from the

			mandated level of disbursement of credit to the agriculture sector and the weaker sections. In the opinion of the Committee, the need to ensure that Banks abide by the mandated level of extending agricultural credit acquires added importance in view of meeting the envisaged target of doubling the flow of credit to agriculture sector by 2006-07. With specific reference to the Budget announcement of extending agriculture credit at 7 percent rate of interest, the Committee note from the information furnished that the modalities relating thereto are being worked out in consultation with the Bankers and NABARD. The Committee wish to be apprised of the policy measures finalised for giving effect to the proposal for enabling flow of agricultural credit at the interest rate of 7 percent.
2.	34, 35 & 36	Department of Economic Affairs	While examining the Demands for Grants (2005-06), the Committee were informed that the matters pertaining to speedy disposal of cases pending with the Debt Recovery Tribunals (DRTs) were being taken up with the Chairpersons of DRATs and the Presiding Officers of DRTs. A proposal for amending the DRT Act and DRT (Procedure) Rules with a view to improving the recovery system was also informed to be on the anvil. The Committee, however, feel constrained to note that detailed information on the outcome of the efforts in this regard, including the changes proposed in the DRT Act and the related rules and procedures have not been furnished by the Ministry. The Committee note that presently, as many as 27,807 cases involving a total amount of Rs. 92,671.42 crores in dispute are pending adjudication with the DRTs. The Committee further note that though sub-section (24) of section 19 of the DRT Act stipulates a time frame of 180 days from the date of

			receipt of the application for clearing cases, the stipulation is very often, not adhered to. Ensuring speedy and effective system of disposal of cases being of utmost importance, the Committee once again emphasise on giving focused and serious attention to address the problems ailing the DRTs. The Committee also note from the information furnished that presently there are nine vacancies of Presiding Officers in various DRTs. While seven of the vacancies have arisen owing to the completion of the tenure of the incumbents, two vacancies are said to have resulted due to the repatriation of the officers concerned. As informed by the Ministry, action is underway for filling up the vacant posts. The Committee feel that initiation of advance action for filling up the vacancies in the DRTs should not be difficult, particularly when the tenure of the incumbents is known before hand. The Committee, therefore, emphasise on evolving a viable system of initiation of advance action for filling up the vacancies in the DRTs without any time lag in demission of office by the serving officers and the new incumbents taking charge. Adoption of such a policy measure would contribute in ensuring that the work of the DRTs is not hampered.
3.	49, 50, 51 & 52	Department of Economic Affairs	The Committee note that the SHG – Bank linkage programme has, particularly in the recent years, emerged as a major and effective means of 'financial inclusion' by making credit facilities available to the poor in the rural areas. While the active participation of Banks, which include commercial banks, RRBs and Cooperative Banks in the operation of the programme has resulted in an increase in the cumulative disbursement of credit facilities to the needy sections from about 57.00 crore in 1992-93 to 8319.00 crore in 2005-06, which is noteworthy, the Committee feel the

			need to emphasise on addressing some specific issues pertaining to the 'micro finance sector'. These include, inter alia, the regional imbalances, particularly between the north and the south in the growth and spread of SHG – Bank linkage programme; the reasonability of interest charged on 'micro credit'; and regulation of micro finance institutions. As evidenced from the written notes furnished by the Ministry, and the oral submissions made by the representatives of the Ministry of Finance, focussed attention is being given or is proposed for ensuring regional balance in the growth of 'SHG- Bank linkage programme'. The Committee feel the need to emphasise on ensuring that NABARD plays a pro-active role in promoting the formation of SHGs, and activising NGOs to participate in the SHG-Bank linkage programme in the States where it has not gained ground. The interest rate presently chargeable on 'micro-credit' ranges from 8 to 12 percent, which in the opinion of the Committee, is not in consonance with avowed objective of the SHG-Bank linkage programme, which is aimed at benefiting the needy and poor sections of the society. While the RRBs and Cooperative Banks exercise freedom in fixing the lending rates, the 'Scheduled Banks' are to abide by the 'Bench mark rates' fixed by RBI in deciding on the lending rates. From the information furnished, the Committee note that efforts are underway to bring down the interest chargeable on 'micro-credit' to a range of 6-8%. The Committee expect that effective policy measures are evolved for ensuring that the interest chargeable on micro credit is affordable and reasonable for the needy sections. The Committee further note that micro-finance institutions can be registered in the form of societies, trusts, companies or cooperatives. Regulation of these

			institutions being an imminent necessity, the Committee expect the proposed legislation on 'micro finance institutions' to be brought in at the earliest.
4.	61, 62 & 63	Department of Economic Affairs	The Committee are concerned to note that the post tax profit of the four public sector general insurance companies declined from Rs. 1364 crores in 2003-04 to Rs. 1172 crores in 2004-05. The market share of the companies too come down from 85.52% in 2003-04 to 79.93% in 2004-05 which amounts to a fall of 5.59% as compared to the previous year. The Committee had, while examining the Demands for Grants of the Ministry of Finance for the year, 2004-05 laid stress on the need for upgrading the operations and quality of services of the non life public sector insurance companies in view of the slipping market share of the companies, which was to the extent of 4.5% in the year (2004-05). What the Committee find to be particularly disturbing to note is also the fact that unlike the case of non-life private sector insurers, who have, more or less met the limits of allowable management expenditure, the management expenses incurred by the four public sector general insurance companies has been well above the permissible limits in 2003-04 and 2004-05. The declining profits, market share and excessive management expenditure of the public sector general insurance companies being a matter of serious concern, the Committee understand that the Government proposes to address issues ailing these companies by devising an 'MoU' to be entered into with the managements of the companies. The parameters of the proposed MoUs, as informed to the Committee, would include, inter alia, business growth targets, prudent underwriting of business, yields on investment and management expenses. The Committee wish to be apprised of the progress on the

			policy measures contemplated for reversing the declining profit trend and market share of the public sector general insurance companies. The Committee feel dismayed to note the facts and figures pertaining to the implementation of the Universal Health Insurance Scheme (UHIS), which as announced in the Budget, 2004-05, is intended to aid the BPL households by providing the beneficiaries a personal accident cover and reimbursement of hospitalisation charges. The fact that the targeted number of 10 lakh beneficiaries under the scheme for the year 2004-05 could not be achieved even after shifting it over to the subsequent year, 2005-06, and as many as 3197 of the total of 6288 claims reportedly are pending settlement is, in the opinion of the Committee indicative of serious flaws in operationalising the scheme. Moreover, figures would show that the public sector insurance companies received premium payments under UHIS (borne by Government) over last three years amounting to Rs. 24.42 crores while claims paid were only of the order of Rs. 1.59 crores. The Committee, therefore, desire that the various aspects of the Universal Health Insurance Scheme be assessed in detail and remedial measures taken by redesigning and reformulating the scheme so that the needy sections are actually benefited from the scheme.
5.	69 & 70	Department of Economic Affairs	**The Committee note that the proposal to set up an 'Investor Protection Fund', under the aegis of the Capital Market regulator, SEBI as announced in the Budget 2006-07 is an imminent necessity as the prime objective of the 'regulator' is to protect the interests of the investors in the securities market. As per the proposal relating to the establishment of the 'Fund', the amounts required for undertaking investor protection activities and measures are to be generated from the fines and penalties imposed by SEBI.**

			The Committee are of the view that particularly in the light of the surge being witnessed in the capital market operations in the recent past, and also aberrations or scams such as the recent 'IPO – demat scam', it is absolutely essential on the part of SEBI to initiate investor protection activities in a big way. The Committee, however, note from information furnished that the amounts raised by SEBI, by way of imposing penalties totals to about 534 lakhs till date. This amount, in combination with the likely accruals of the future, may, in the opinion of the Committee, be inadequate in enabling SEBI to plan and implement investor education and protection activities on a large scale. The Committee note in this regard that the proposal made earlier for shifting the 'Investor Education and Protection Fund' established under the Companies Act. 1956 and administered by the Ministry of Company Affairs to SEBI did not find favour. Given the need for undertaking investor protection and education activities in a big way by the Capital Market regulator, the Committee feel the need for impressing on the Government to ensure that SEBI is not, in any way, incapacitated in undertaking investor protection activities due to the inadequacy of funds available at its disposal.
6.	80 & 81	Department of Expenditure	The Committee note that unlike the previous year 2005-06, the projections of revenue and fiscal deficit reduction targets of the current year 2006-07 whereby the revenue and fiscal deficits are targeted to be brought down from 2.6 % of 2.1 % of the GDP, and from 4.1 % to 3.8% of GDP respectively are in consonance with the FRBM road map which envisages to eliminate revenue deficit and bring down fiscal deficit to a level below 3% by 2008-09. The Committee had, in their report on the Demands for Grants of the Ministry of Finance for 2005-06, emphasized on strict adherence with the fiscal correction targets envisaged under the FRBM Act and Rules. The FRBM Act is a comprehensive legislation covering

			rules relating to borrowing, deficit and debt. The Act casts an obligation on the Government to monitor the fiscal position not only by initiation of measures to increase revenues, but also by containing expenditure. The Committee note that while the FRBM rules limit the guarantees extendable by the Government to a maximum of 0.5% of the GDP in a year, the net accretion of guarantees at the close of 2004-05 has been slightly higher viz. 0.57% of the GDP. With regard to limiting the additional liabilities, which is budgeted at 7% and 6% of the GDP for 2006-07 and 2007-08 respectively, the Committee note that the Government is hopeful of achieving these targets subject to certain assumptions on exchange rate variations etc. The Committee feel the need to once again emphasise on ensuring that the fiscal corrections targets and measures stipulated under the FRBM Act and Rules are strictly adhered to. The Committee also wish to be kept apprised of the policy measures pursued for adhering to, and achieving the FRBM goals. As assured by the Finance Secretary during evidence, the Committee also wish to be apprised of the expenditure management reforms being undertaken and their effectivity in curtailing non-developmental expenditure.
7.	93	Department of Disinvestment	The Committee regret to note that inspite of their repeated recommendations, the government have not placed the much awaited policy document on Disinvestment in Parliament. In this connection, the Committee recall their earlier recommendations in their Reports on Demands for Grants, 2004-05 as well as 2005-06 and subsequent Action Taken Reports thereon urging the Government to bring out a Comprehensive Policy document addressing aspects e.g. valuation, employee welfare etc. because in the absence of a clear cut policy, the Government is forced to evolve a new methodology every time to deal with a particular situation.The Committee also

			recall the Government's categoric response to their earlier recommendations wherein the Government had stated that the White Paper on Disinvestment was under preparation and was expected to be tabled during the Monsoon Session of Parliament 2005. However, as the Committee note that the proposed White Paper is stated to be still under consideration of the Government, the Committee are inclined to conclude that the government is perhaps, not keen to come out with their policy document on disinvestment in the public domain. Therefore, the Committee would like to emphatically reiterate their oft-repeated recommendation that the Government must expedite the consideration of White Paper and come out with this policy document, without any further delay. The Committee also note that the Government's emphasis is to list, large, profitable CPSEs on domestic Stock Exchanges and to selectively sell small portions of equity in listed, profitable CPSEs (other than the navratnas). They are of the opinion that it is essential that the policy of the Government on this matter is discussed in the Parliament. The White Paper should be a comprehensive document covering all aspects of disinvestment policy especially issues related to disinvestment of companies like rationale of disinvesting a company, benefits available to the retrenched employees, their other interests, possible rehabilitation.
8.	103, 104	Department of Disinvestment	The Committee find that the Government have already constituted a National Investment Fund into which the proceeds of disinvestments of Government equity in CPSEs would be channelised. They further note that the Government have also selected UTI Mutual Fund, SBI Mutual Fund & LIC Mutual Fund as the three largest public sector mutual funds as Fund Managers. However, the Committee feel that while the NIF is a good move, its efficacy will hinge on the

			disinvestment proceeds accruing to the fund. In so far as managing the NIF is concerned , the Committee note the Government's decision that the post of CEO, NIF would be filled through Central Staffing Scheme. They, however, feel that as this post needs experts who are equipped to deal with technical and complex economic issues, the Government should not limit their options for appointment of CEO, NIF only to bureaucrats and consider professionals/experts from the field also for the said post. The Committee feel that, this way the fund would have better chances of being professionally managed and effectively utilized. In line with their earlier recommendation made during examination of Demands for Grants (2005-06), wherein they have stated that several important issues relating to the management of funds and utilization of the proceeds of income from the fund need to be addressed in detail, the Committee further recommend that utmost care should be taken to select competent auditors/auditing firms with proven track record for this job, and their independence must be ensured.

Minutes of the Twenty- first sitting of Standing Committee on Finance

The Committee sat on Tuesday, 18th April, 2006 from 1030 to 1315 hrs and 1430 to 1630 hrs.

PRESENT

Maj. Gen.(Retd.) B.C. Khanduri - Chairman

MEMBERS

LOK SABHA

2. Shri Bhartruhari Mehtab
3. Shri Madhusudan Mistry
4. Shri Shriniwas D. Patil
5. Shri M.A. Kharabela Swain
6. Shri Vijoy Krishna

RAJYA SABHA

7. Shri Chittabrata Majumdar
8. Shri Mangani Lal Mandal
9. Shri Santosh Bagrodia

SECRETARIAT

1.	Dr. Smt. P.K. Sandhu	-	Additional Secretary
2.	Shri A.M. Mukhopadhyay	-	Joint Secretary
3.	Shri S.B. Arora	-	Deputy Secretary
4.	Shri T.G. Chandrasekhar	-	Under Secretary
5.	Smt. Anita B. Panda	-	Under Secretary

Part – I
(1030 to 1315 hrs.)

2. XX XX XX XX XX XX

Part – II
(1430 to 1630 hrs.)

Ministry of Finance

(Departments of Economic Affairs, Expenditure and Disinvestment)

1. Dr. Adarsh Kishore, Finance Secretary & Secretary (Expenditure)

Department of Economic Affairs

1. Shri A.K. Jha, Secretary (Economic Affairs)
2. Shri Vinod Rai, Special Secretary (FS)
3. Dr. Ashok Kumar Lahiri, Chief Economic Advisor

4. Shri Ashok Chawla, Additional Secretary (Economic Affairs)
5. Dr. K.P. Krishnan, Joint Secretary (CM)
6. Ms. L.M. Vas, Joint Secretary (Budget)
7. Shri Augustian Peter, Additional Economic Advisor
8. Shri M.C. Singhi, Economic Advisor
9. Shri M.S. Farooqi, Joint Secretary (BC)
10. Shri Kumar Sanjay Krishna, Joint Secretary (FT)
11. Shri M. Prasad, Joint Secretary (FB & A)
12. Shri S.S. Amitabh Verma, Joint Secretary
13. Shri G.C. Chaturvedi, Joint Secretary
14. Shri Ram Muivah, Joint Secretary
15. Dr. H.A.C. Prasad, Sr. Economic Advisor
16. Shri R.C. Srinivasan, Sr. Eco. Advisor
17. Shri K.L. Prasad, Addl. Eco. Advisor
18. Shri P.P. Mitra, Economic Advisor
19. Shri Devi Prasad, OSD (FRBM)

Department of Expenditure

1. Shri Anurag Goel, Additional Secretary (E)
2. Shri Atanu Chakraborty, Joint Secretary (Pers)
3. Shri Shankar Bannerjee, CAA & A
4. Shri V. Senthil, Joint Secretary (PF-I)
5. Shri Vivek Rae, Joint Secretary (PF- II)
6. Shri M. Deena Dayalan, Joint Secretary & Financial Advisor (Finance)
7. Smt. Vandana Sharma, CC (P)
8. Shri S.W. Oak, CGA
9. Shri S.C. Pandey, OSD (P&C)

Department of Disinvestment

1. Shri A.K. Jain, Secretary
2. Shri Saurabh Chandra, Joint Secretary
3. Shri Arvind Mehta, Joint Secretary
4. Smt. Meenakshi Ghose, Joint Secretary

3. At the outset, the Chairman welcomed the representatives of the Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment) to the sitting of the Committee and invited their attention to the provisions contained in direction 55 of the Directions by the Speaker.

4. The Committee then took oral evidence of representatives of the Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment) on issues arising out of Budget Proposals (2006-07) of the Ministry of Finance and other related matters.

5. Thereafter, the Chairman requested the representatives of Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment) to furnish notes on certain points raised by the Members to which replies were not readily available with them during the discussion.

6. The evidence was concluded

7. A verbatim record of proceedings has been kept.

The witnesses then withdrew

The Committee then adjourned

Minutes of the Twenty-sixth sitting of Standing Committee on Finance

The Committee sat on Wednesday, 19 May, 2006 from 0930 to 1030 hrs.

PRESENT

Maj. Gen (Retd.) B.C. Khanduri - Chairman

MEMBERS

LOK SABHA

2. Shri Bhartruhari Mahtab
3. Dr. Rajesh Kumar Mishra
4. Shri Madhusudan Mistry
5. Shri Rupchand Pal
6. Shri Jyotiraditya Madhavrao Scindia
7. Shri M.A. Kharabela Swain
8. Shri Vijoy Krishna

RAJYA SABHA

9. Shri S.P.M. Syed Khan
10. Shri Santosh Bagrodia

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
5. Smt. Anita B. Panda - Under Secretary

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

3. XX XX XX XX
XX XX XX XX

4. The Committee then took for consideration draft Reports on the Demands for Grants (2006-07) of the following Ministries/Departments and adopted the same subject to the modification as shown in Annexure-I in respect of the draft Report at Sl. No. (v) :-

(i) XX XX XX XX

(ii) Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment)

(iii) XX XX XX XX

(iv) XX XX XX XX

(v) XX XX XX XX

-2-

5. The Committee authorised the Chairman to finalise the Reports in the light of modification as also to make verbal and other consequential changes arising out of the factual verification and present the same to both the Houses of Parliament.

The Committee then adjourned.