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STANDING COMMITTEE ON FINANCE (2006-2007)

FOURTEENTH LOK SABHA

MINISTRY OF FINANCE

(DEPARTMENTS OF ECONOMIC AFFAIRS, EXPENDITURE AND DISINVESTMENT)

DEMANDS FOR GRANTS (2007-08)

FIFTY-FIRST REPORT

LOK SABHA SECRETARIAT
NEW DELHI

April, 2007/*Vaisakha*, 1929 (*Saka*)

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4. Shri Shyama Charan Gupta
5. Shri Vijoy Krishna
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SECRETARIAT

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

INTRODUCTION

I, the Chairman, Standing Committee on Finance having been authorised by the Committee to submit the Report on their behalf, present this Fifty-First Report on the Demands for Grants (2007-08) 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 14 March, 2007. 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.

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 2 April, 2007 in connection with the examination of the Demands for Grants (2007-08) of the Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment). On the 17th April, 2007, the Committee, again, took evidence of the representative of Ministry of Finance, Department of Economic Affairs.

4. The Committee considered and adopted the draft Report at their sitting held on 26 April, 2007.

5. 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.

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

NEW DELHI;
26 *April,* 2007
6 *Vaisakha,* 1929 *(Saka)*

ANANTH KUMAR,
Chairman,
Standing Committee on Finance.

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.

The Departments of Economic Affairs and Expenditure are the nodal Departments for following divisions:—

i. Economic Division

ii. Banking Division

iii. Insurance Division

iv. Budget Division

v. Capital Markets Division

vi. Infrastructure Division

vii. Fund Bank Division (including UN Branch)

viii. Foreign Trade Division

ix. Aid Accounts and Audit Division

x. Administration Division

xi. Bilateral Cooperation Division

xii. Integrated Finance Division

xiii. Establishment Division

xiv. Plan Finance I—Division

xv. Plan Finance II—Division

xvi. Finance Commission Division

2. The overall Demands for Grants (2007-08) of 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. 32 to 40 and Demand No. 44.

3. The detailed Demands for Grants of the Ministry of Finance were presented to Lok Sabha on 14th March, 2007. The BE, RE and Actuals for the Demand Nos.32 to 40 and Demand No.44 from the year 2004-2005 are as follows:—

2004-2005

(In thousand of rupees)

D.No.	BE		RE		Actuals	
	Plan	Non-Plan	Plan	Non-Plan	Plan	Non-Plan
1	2	3	4	5	6	7
D.No.32-DEA	2,302,00,00	1,801,92,00	1,077,46,00	1,865,66,00	803,93,98	1,442,84,27
D.No.33-C&C	-	1,425,95,00	-	1,314,19,70	-	1,110,89,29
D.No.34-PFI	24,00,00	12,700,54,00	26,18,00	12,429,75,30	21,17,50	11,780,23,00
App..No.35-Interest Payments	-	133,499,86,00	-	130,154,80,00	-	130,958,22,43
D.No36.-Transfers to State & UT Govts.	47,927,47,00	22,270,00,00	48,976,39,00	20,815,69,00	46,857,65,49	20,029,98,73
D.No.37-Loans to Govt. Servants	-	600,00,00	-	600,00,00	-	399,14,86
App..No.38-Repayment of Debt	-	342,119,51,00	-	522,485,23,00	-	556,268,77,92
D.No.39-D/Expenditure	25,00	26,37,00	10,00	26,14,00	10,00	25,14,13
D.No.40-Pension	-	4,711,80,00	-	5,250,00,00	-	5,241,40,82
D.No.45-D/Disinvestment.	-	55,00,00	-	48,60,00	-	28,99,35
2005-06						
D.No.32-DEA	2,926,62,00	2,481,91,00	1,472,81,00	2,591,68,00	1,423,61,45	2,505,17,11
D.No.33-C&C	-	1,425,88,00	-	1,191,75,00	-	774,06,77

1	2	3	4	5	6	7
D.No.34-PFI	25,81,00	4,064,69,00	30,50,00	6,371,92,57	17,89,69	4824,01,84
App..No.35-Interest Payments	-	137,444,86,00	-	138,031,86,00	-	141,374,88,27
D.No36.-Transfers to State & UT Govts.	26,500,33,00	30,419,41,00	29,776,41,00	32,460,66,00	29,640,16,89	32,240,02,96
D.No.37-Loans to G.S.	-	475,00,00	-	436,00,00	-	303,50,05
App.No.38-Repayment of Debt	-	601,477,12,00	-	1021,680,84,00	-	1115,210,06,42
D.No.39-D/Expenditure	50,00	27,32,00	46,00	27,19,00	45,50	26,31,32
D.No.40-Pension	-	5,925,00,00	-	6,312,00,00	-	6,278,83,99
D.No.45-D/Disinv.	-	6,70,00	-	6,13,66	-	6,02,96
2006-07						
D.No.31-DEA	1,925,72,00	1,620,11,00	14,24,72,00	8,557,45,00	-	-
D.No.32-C&C	-	1,00,00	-	-	-	-
D.No.33-PFI	36,00,00	4,366,23,00	9,53,00	6726,25,54	-	-
App..No.34-Interest Payments	-	145,822,60,00	-	150,691,85,00	-	-
D.No35.-Tr. to State & UT Govts.	29,562,28,00	33,769,01,00	36,498,58,00	42,715,52,00	-	-
D.No.36-Loans to G.S.	-	450,00,00	-	400,00,00	-	-
App..No.37-Repayment of Debt	-	1098,307,66,00	-	1444,578,10,00	-	-
D.No.38-D/Expenditure	63,00	28,82,00	63,00	36,00,00	-	-
D.No.39-Pension	-	6,823,10,00	-	7,058,66,00	-	-
D.No.44-D/Disinv.	-	76,90,04,60	-	4,01,00	-	-
2007-08						
D.No.32-DEA	1,549,38,00	2,392,05,00	-	-	-	-
C&C	-	-	-	-	-	-
D.No.33-PFI	-	46,077,57,00	-	-	-	-
App..No.34-IP	-	163,994,93,00	-	-	-	-
D.No35.-Transfer to State & UT Govts.	36,808,20,00	35,140,00,00	-	-	-	-
D.No.36-Loans to G.S.	-	360,00,00	-	-	-	-
App..No.37-Repayment of Debt	-	1611,645,92,00	-	-	-	-
D.No.38-D/Expenditure	1,00,00	143,00,00	-	-	-	-
D.No.39-Pension	-	7,333,50,00	-	-	-	-
D.No.44-D/Disinv.	-	33,06,00,00	-	-	-	-

4. In the present Report, the Committee have examined the following issues arising out of the Budget Proposals (2007-08):

A. Department of Economic Affairs

1. Inflation
2. Banking Sector:
   - (i) Agricultural Credit
   - (ii) Computerisation and Introduction of Core Banking Solutions in Public Sector Banks
   - (iii) Lending to Weaker Sections by Commercial Banks
   - (iv) Customer Service in Banking Sector
3. Insurance Sector

   Crop Insurance
4. Capital Market

   SEBI—Investor Protection Fund
5. Information Technology—Other Charges
6. Secretariat—Minor Works

B. Department of Expenditure

(i) Achievement of FRBM Target

(ii) Publication

C. Department of Disinvestment

(i) Disinvestment Policy Document

(ii) Inter Account Transfer

Review of Report on Demands for Grants (2006-07)

5. While examining the Demands for Grants of the Ministry of Finance, Departments of Economic Affairs, Expenditure and Disinvestment of the previous year, 2006-07, the Committee in their report, which was presented on the 22 May 2006, considered the following issues:

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

6. The Report of the Committee (2006-07) contained eight recommendations in all. In terms of Direction 73 A of the Directions by the Speaker, the Finance Minister made a statement in the Lok Sabha on 19th December, 2006 on the Status of implementation of the recommendations made by the Committee in the Report.

7. Of the eight recommendations contained in the report on the Demands for Grants (2006-07) of the Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment) as indicated in the Action Taken Report presented on 14 December, 2006, the Government accepted four recommendations *i.e.* (i) Debts Recovery Tribunals—Disposal of pending cases and filling up of vacancies, (ii) Micro Finance—SHGs, (iii) Capital Market—Investor Protection Fund under SEBI, (iv) FRBM Act and Rules; and commented on four of the recommendations in respect of which replies of the Government were not satisfactory viz. (i) Priority Sector Lending—Lending to Agriculture Sector, (ii) Insurance—Performance of Public Sector Insurance Companies, (iii) Policy on Disinvestment, and (iv) National Investment Fund (NIF).

Inflation

8. The year 2006-07 started with an inflation rate of 4 per cent on April 1, 2006 which was followed by a mixed trend until end of July 2006 when it reached 5.1 per cent and it remained below 5.7 per cent till December 16, 2006. The inflation touched 5.9 per cent on the week ending December 30, 2006. This was significantly higher than 4.6 per cent recorded a year ago. On February 24, 2007, it was 6.1 per cent as against 4.2 per cent last year.

9. The inflation rate for primary articles at 9.76 per cent on January 20, 2007 was higher than 5.87 per cent recorded in the corresponding week of the previous year. On January 20, 2007, while the inflation rate for manufactured products at 5.65 per cent was higher than 2.32 per cent recorded in the corresponding week a year ago, there was a significant deceleration in inflation in the fuel group from 7.84 per cent a year ago to 3.67 per cent. In the current year, increase in prices of wheat, pulses, edible oils, fruits and vegetables, and condiments and spices has been the major contributor to the higher inflation rate of primary articles. Shortfall in domestic production vis-à-vis domestic demand and hardening international prices were the major causes for the increase in prices of these commodities.

10. With the softening of international petroleum prices in 2006-07, domestic prices of petrol (motor spirit) and high-speed diesel were reduced by Rs. 2 and Re.1 respectively with effect from November 30, 2006 and again by Rs. 2 and Re. 1 respectively with effect from February 16, 2007.

11. The point-to-point Consumer Price Index (CPI) inflation for industrial workers was placed higher at 6.7 per cent in January 2007 as against 4.8 per cent a year ago. It was 7.6 per cent in June 2006, the highest in 7 years. Inflationary trend of CPI was lower than the WPI till October 2005, and was higher than the WPI during November 2005 to January 2007. The new series of CPI-IW has been introduced on 2001 base from January 2006 and old series on base 1982 has been discontinued.

12. Questioned on the modalities of measurement of WPI and CPI, the Ministry in their written submission stated as below:—

> "The Wholesale Price Index (WPI) has a basket of 435 items, which are divided into three sub-categories namely Primary Articles, Fuel, Power & Light and Manufactured Products. The items selected

have large transactions in the economy. Each item is assigned a particular weight in the basket. Based on the price quotations received for each item the indices of the particular item for a particular week is constructed. The composite index is obtained by taking the weighted average of all the commodities in the basket. Point to point inflation, which is the per cent increase/decrease in the individual/composite index in the current week over that of the corresponding week last year, is then calculated on a composite basis as well as sub-group and individual item-wise.

The Consumer Price Index has four variants *i.e.* Consumer Price Index—Industrial Workers (CPI-IW), Consumer Price Index—Urban Non-Manual Employees (CPI-UNME), Consumer Price Index—Agricultural Labourers (CPI-AL) and Consumer Price Index—Rural Labourers (CPI-RL). These indices measure the changes in the level of prices of goods and services that the four different reference populations groups acquire, use or pay for consumption. As is evident, the weights assigned to and composition of each of these indices varies significantly.

The major reason for the gap in inflation as measured in terms of WPI and CPI is the different weightages and composition of commodities in each basket. In CPI-IW, the food group has a weightage of 46.19 per cent as compared to only 26.94 per cent in case of WPI. Thus a higher inflation in this category will have a larger effect on the CPI-IW than that on the WPI."

13. By way of furnishing the reasons for volatility of WPI *vis-a-vis* stability of CPI during the year 2004-05 and substantial increase in CPI during the fiscal year 2005-06 *vis-a-vis* the previous year, the Ministry submitted as under:—

"The volatility of WPI during 2004-05 was primarily due to the hardening oil prices in the international market. For the fuel group the inflation rate during 2004-05 varied between 8.1 per cent and 14.3 per cent since early June 2004. Average head line world price of Indian basket of crude petroleum increased by 47.9 per cent from US$ 36.3 per barrel in April-September 2004 to US$ 53.7 per barrel in April-September 2005. The CPI was stable mainly because the prices of food articles, which has a significant weightage in CPI, remained stable. In 2005-06, since November 2005 the increase in CPI based inflation was more than that of the WPI based inflation due to acceleration in food prices during this period."

14. A brief summary of major factors and policy measures taken by the Government to tackle inflation has been furnished in Economic Survey 2006-07 as below:—

> "In the current year, pressure on inflation may persist because of a mis-match in supply and demand for some primary articles and firm international prices. Higher demand as a result of an accelerated growth in GDP, higher growth in reserve money because of a faster increase in foreign assets, the multiplier effect of increase in broad money, and credit growth have also exerted pressure on demand side. Government has been quick in responding to these developments and has been making efforts to ease the pressure on prices. In petroleum products only a partial pass-through of the increase in international prices was provided and later a reduction in the prices of petrol and diesel was made which kept the inflation for the group 'fuel and power' moderate. Duty reductions in some essential commodities, metals and cement and the monetary stance of the Reserve Bank of India will have an added impact on inflationary expectations; results thereof may be visible in days to come. However, unless the supply side constraints– especially in food items– are removed, the inflationary pressure will not be tamed fully".

15. Asked to detail the measures taken by the Government to control inflation, the Ministry furnished the following reply:

- "Reduction in retail prices of petrol by Rs. 2 per litre and diesel by Rs. 1 per litre in November 2006 and again in February 2007.
- State Trading Corporation contracting for import of 55 lakh tonnes of wheat to supplement domestic availability, of which 49.4 lakh tonnes had arrived by February 13, 2007.
- As against normal applicable duty of 50 per cent, allowing private trade to import wheat at 5 per cent duty from June 28, 2006, and at zero duty from September 9, 2006.
- Decision to release up to 4 lakh tonnes of wheat under Open Market Sale Scheme in February and March 2007.
- Ban on export of wheat from February 9, 2007.
- Reduction in customs duty on import of pulses to zero on June 8, 2006.
- Ban on export of pulses with effect from June 22, 2006.

- NAFED importing 49,300 tonnes of pulses. Under a new contract executed by NAFED in December 2006 to import 30,000 tonnes of pulses, 10,675 tonnes had been shipped by February 13, 2007.
- To contain volatility in the futures prices of wheat, sugar and pulses, Forward Markets Commission (FMC) has imposed limits on open position, reduced limits on daily fluctuations and imposed additional/special margins.
- Ban on futures trading in tur and urad from January 24, 2007.
- Reduction in import duty on palm group of oils by 10 percentage points in August 2006 and by a further 10-12.5 percentage points in January 2007. Maintaining tariff value for assessing import duty unchanged at July 2006 level.
- Ban on export of skimmed milk powder.
- Steps taken by Reserve Bank of India to reduce liquidity in the system by increasing the cash reserve ratio and repo rates."

16. In reply to a query on the extent to which the Government has been able to bring down the level of inflation as a result of implementation of above mentioned measures, the Ministry in their written submission stated as below:-

"As per the latest available information (51st week), the provisional WPI based inflation is 6.46 per cent as on March 17, 2007. With a pass-through limited only to the extent of 12.5% of the increase in international prices of crude oil in June 2006, and two reductions in the retail prices of petrol and diesel in the year, inflation in the group, "fuel and power" was moderated to 1.01 per cent compared to 8.92 per cent a year ago. The import of wheat and pulses and export ban on pulses moderated the price rise for these commodities. Though, it is difficult to estimate the increase in prices had these measures not been taken, the improved availability did calm inflationary expectations and contained the upsurge that a perceived scarcity could have created. Wheat imports also facilitated allocation under the public distribution system and a build up of buffer stock higher than the norm in April, 2007".

17. Responding to a query on initiation of restrictive monetary policy measures to contain inflation without affecting the growth rate of the economy, the Ministry stated as follows in their written reply:-

"The conduct of monetary policy in India has been guided by the twin objectives of maintaining price stability and ensuring adequate flow of credit to the productive sectors of the economy for sustaining overall economic growth. The underlying factors for inflation could be from the supply-side as well as from the demand-side. The monetary policy is calibrated having regard to the emerging macroeconomic situation; the use of monetary policy instruments to regulate liquidity, therefore, is complementary to supply-side and fiscal measures initiated by the Government to contain inflation and anchoring inflationary expectations, while supporting the growth momentum.

The monetary policy factors in the need to facilitate growth and at the same time contain inflationary expectations. The effect of the monetary and fiscal policy measures in the recent past is reflected in the real GDP growth for 2004-05 and 2005-06 at 7.5 per cent (provisional estimates) and 9.0 per cent (quick estimates). As per the advance estimates for 2006-07 released by the Central Statistical Organisation on February 7, 2007 growth is expected at 9.2 per cent. Interest rates have been supportive of the growth momentum of the economy."

18. In this regard, the Finance Secretary deposed as follows during the course of oral evidence:—

"A general issue was raised that some of the measures to contain inflation are also going to impact growth. It is a fact that if we bend too much on one side in terms of control of inflation by raising the interest rates to very high levels, it will perhaps impact growth. Therefore, the monetary authorities would, I am sure, be taking notice of this point and to the extent that it is necessary, only monetary proposals will be put in place by the monetary authorities. This is something which is definitely a matter of concern as to how far we can go in terms of raising the interest rates to contain inflation. To control inflation, one would need monetary, fiscal as well as supply side measures. If inflation has been due to say supply side factors, lack of adequate quantum of food stuff, etc. then obviously supply side measures would need to be taken up and they have been so. Import of wheat at initially lower rates of duty and then zero duty were steps in that direction."

19. However, the Chief Economic Advisor to the Government stated as follows on the recent policy measures of RBI during the course of oral evidence:—

"The whole idea is to calibrate policies in such a way that you have a soft landing…I am sure, as the Hon'ble Minister of Finance pointed out, RBI is taking the right policies. I believe inflation is no longer a supply side problem alone although it started off with wheat, edible oils and pulses. Now if you look at the contribution of manufactured commodities to inflation, manufactured commodities I think have a weightage of 63.75; and on 17th March, its contribution to inflation was 56.72. Manufactured commodities are contributing almost as much as its weightage. I would submit that it is somewhat of a monetary and generalized problem than simple structuralist supply-induced inflation. I have nothing beyond what the Hon'ble Minister of Finance has said that the RBI's policies should take effect."

20. While tendering his further oral evidence before the Committee, he said following in this regard:—

"As you may be aware, I am sure you are, inflation has come down to 5.74 per cent at the end of the year. I must tell you that there is one twist in this. This year had 53 weeks and last year had 52 weeks. The question is: What should you compare it with? 25th March of last year or 1st April of 2006? International practice is not uniform. The RBI also has this problem. At the end of the year, you have the difference. I have strong reasons to believe that it is more useful to compare the closest dates that is available, that is 1st April. If you do that, you get the number of 5.74 per cent. So, I believe the worst may be over unless there are policy surprises. I do not think the Government or RBI has any idea of giving policy surprises. The action that the Government has taken is the CRR increase, MSS activation, and reduction in the duty rates…Indeed it is right that inflation in the last year started off with the supply side problems…

From late November onwards, it has not been a supply side phenomenon for some commodities only, but a more generalized phenomena. Another argument that I can give is that manufactured products has a weightage of 63.7 per cent in the Wholesale Price Index; and contributed 56 per cent of the inflation by 31st March, 2007. So, it would not be quite right to say that it is a supply side problem only. It is my diagnosis. It is slightly more general than that."

21. The Committee observe that while the Wholesale Price Index (WPI) based inflation rose from 4 per cent in April, 2006 to 6.1 per cent in February, 2007, the inflation level as measured by the Consumer Price Index which peaked to as much as 7.6% in June, 2006, the highest in the last seven years, was placed at 6.7% in

January, 2007. Though the inflation rate for primary articles and manufactured products at 9.76 per cent and 5.65 per cent respectively as on 20th January, 2007 was higher than 5.87 per cent and 2.32 per cent recorded in the corresponding week a year ago, the inflation rate for the fuel group decreased from 7.84 per cent to 3.67 per cent in the same period. Rise in prices of wheat, pulses, edible oils, fruits and vegetables, condiments and spices were the major contributory factors towards increasing the inflation rate of primary articles. The variation between the WPI and CPI measured inflation rate is owing to the different weightages and composition of commodities in the baskets of the two price indices. While the 'food group of items' have been given a weightage of 46.79% in the CPI basket, these items are accorded a weightage of 26.94% in the WPI basket. The CPI measured inflation in the current times being higher *vis-a-vis* the WPI measured inflation, which is owing to the rise in food prices, the Committee cannot help taking note of the fact that the inflationary trend being witnessed affects the working class, or the lower strata of the society the most.

22. The measures initiated and pursued by the Government to control inflation include *inter alia* reducing the retail prices of petrol, importing wheat and pulses at zero duty, banning export of wheat, pulses and skimmed milk powder, reducing import duty on palm group of oils and banning futures trading in tur, urad, wheat and rice. Concomitant to addressing the supply side factors, monetary policy initiatives for regulating liquidity by increasing the Cash Reserve Ratio and Repo rate have been initiated by the RBI with a view to controlling the inflationary trend and simultaneously facilitating the growth rate of GDP which has been to the extent of 7.5% (provisional estimates) for 2004-05 and 9.0 per cent (quick estimates) for 2005-06. The Committee, in this regard, take note of the fact that in the Economic Survey 2006-07 too an apprehension has been expressed that supply-demand imbalances in primary articles and firming of international prices may continue to exert pressure on inflation. It has, therefore been stated that unless supply side constraints, especially in food items are removed, the inflationary pressure would not be tamed fully.

23. Since the primary factor in generating inflationary pressure is observed to be the increase in prices of food items, the Committee are of the view that the Government's policy direction should be essentially and seriously oriented towards addressing 'supply side' factors on a mid and long term basis. The Committee feel this to be essential despite the initiatives taken by the Government for

addressing supply side factors by resorting to imports etc., which can, at best be a short-term or stop gap arrangement for controlling prices. Moreover, rise in prices along with the rise in interest rates affect the common man hard. For the purpose of effectively tackling the inflationary trend, and at the same time maintaining the trajectory of growth, the Committee are of the considered view that the Government should emphasize on proactive steps so that the problem of inflation is tackled effectively. The Committee are of the view that strengthening the public distribution system as an instrument of intervention in the market, withdrawal of other essential commodities too from futures trading, and setting up a stabilization fund to address changes in international oil prices are some of the measures required to be taken for controlling inflation.

2. Agriculture Credit

24. In pursuance to the Budget Announcement 2006-07, Government decided to provide interest subvention of 2% from Kharif 2006, to ensure that the farmer receives Short-Term Production Credit at 7% with an upper limit of Rs. 3 lacs on the principal amount. The Government is providing interest subvention of 2% per annum to Public Sector Banks, Regional Rural Banks (RRBs) and Cooperative Banks on the lending extended from their own resources and refinance at concessional rates to cooperative banks and RRBs on their borrowings from NABARD. The modality followed is as under :—

(a) Subvention of 2% p.a. to Public Sector Banks, RRBs and Cooperative Banks on disbursement out of their resources for short term farm credit.

(b) NABARD will provide refinance to RRBs at 4.5% p.a. in order to enable them to lend at 7% p.a. to the farmers.

NABARD will provide refinance to Cooperative Banks at 2.5% in 2006-07. This will be increased annually by 50 basis points to a level of 4% p.a. by 2009-10.

(c) A 20 basis point administrative charge will be given to NABARD over and above the rate at which NABARD borrows funds from the market for re-finance.

(d) NABARD will be subvented to the extent of the difference between its cost of funds (*i.e.* the weighted cost of borrowings and the cost of its own funds used for refinance under the scheme) and the re-finance rate.

25. The National Commission on Farmers headed by Dr. M.S. Swaminathan, has recommended, *inter alia*, that "the rate of interest for crop loans should be reduced to 4 per cent.

26. Questioned about the action being taken to implement the recommendations of the National Commission on farmers, the Ministry in their written reply stated as below:—

"RBI has deregulated interest rates on loans given by the banks since 1994. Banks are free to determine the lending rate of interest taking into account the cost of funds and the risk element involved. RBI has stipulated that interest rate on loans by Commercial Banks upto Rs. 2.00 lakhs should not exceed the Benchmark Prime Lending Rate (BPLR) and loans upto Rs. 50,000/- should be collateral free. Further, Indian Banks' Association has advised public sector commercial banks in the year 2003 to charge interest rate of not more than 9% p.a. on crop loans upto Rs. 50,000/-.

However, the National Commission on Farmers has recommended for reducing the rate of interest for crop loans to 4%. There is no proposal at the moment to reduce to 4%. Budget 2006-07 envisages interest relief of 2% point in the interest rate on the principal amount upto Rs. 1,00,000/- on crop loans availed by the farmers each for Kharif and Rabi 2005-06. An amount equal to two percentage points of the borrower's interest liability on the principal amount upto Rs. 1,00,000/- has been credited to borrower's account.

Further, it was announced in the Budget 2006-07, that the Government decided to provide interest subvention of 2% from Kharif 2006, to ensure that the farmer receives Short-Term Production Credit at 7% with an upper limit of Rs. 3 lacs on the principal amount. The Government is providing interest subvention of 2% per annum to Public Sector Banks, Regional Rural Banks (RRBs) and Cooperative Banks on their lending from their own resources and refinance at concessional rates to cooperative banks and RRBs on their borrowings from NABARD."

27. When asked specifically whether any proposal was contemplated to further reduce the rate of interest on crop loans, the Ministry in their written submission *inter alia* stated as under:—

"Government has committed to provide interest subvention of 2%. Presently, there is no proposal to reduce the rate of interest to 4% for crop loans".

28. With regard to the interest rate charged by banks for long term loans, the Ministry *inter-alia* submitted as follows in reply:—

"Generally, the rate of interest being charged by banks for long term loan ranges between 10-14% per annum.

Crop loans are provided for seasonal agricultural operations extending over the period of the crop cycle. The lending period extends from 1st April to 30th September and 1st October to 31st March for Kharif and Rabi respectively. Long Term loans for agricultural purposes are provided as investment credit for farm mechanization such as tractors loan etc., irrigation equipment loans like drip irrigation etc. The rates of interest on long term agricultural loans range between 10% to 14% per annum".

29. Further, during the course of oral evidence the Secretary – Financial Sector stated as follows in respect of the issue of reducing the interest rate on crop loans:—

"As regards the rate of interest, I would submit that the rate of interest in agriculture will have to be looked at not only isolated to agriculture. It has to be looked at lending which is being made under differential rate of interest, as it is called. We have to look at the larger weaker sections, look at the rate of interest which is applicable to the SSI sector, rate of interest which is applicable to the weaker sections, artisans, landless labourers etc. So, it may be all right for a Committee concerned with farmer only to recommend 4 per cent. Why not two or three per cent? The Government has examined this in great detail. We have to ensure that there is adequate balance between the amount of interest that is being provided. Government has to ensure an equitable rate of interest to all sections of the economy.

The Members of the Committee are aware that in the micro credit sector, the rate of interest at which debt is being made available is much higher. It is in the range of 18 to 20 per cent, if not more. Yet, that credit is being absorbed. It is not only being absorbed but also, in fact, the so-called NPAs of that sector is just about zero which means even at that high rate, there is sustainability within the rural sector to be able to borrow and make profit out of that borrowing. So, my plea to the Committee is only this that the Government has not, in any way, rejected that 4 per cent. There is a recommendation. The recommendation is specific to a sector. Government may not be in a position to take a decision for that isolated sector alone."

30. He submitted following before the Committee during the course of further oral evidence:—

"How much has been loaned at 7 per cent – I do not have the details; I have to collect it from roughly 60,000 branches; we will collect and give them. The agricultural lending is also beyond Rs. 3 lakhs – 7 per cent is applicable only up to Rs. 3 lakhs.

In the year 2006-07, we had provided for Rs. 1100 crore as subsidy amount. The total that was required was Rs. 1955 crore; Rs. 1100 crore has already been disbursed; about Rs. 855 crore will come in the next supplementary and that will also be disbursed. In the current year, we have provided Rs. 1667 crore. As and when more is required, we will provide it in the supplementaries that will follow."

31. On the issue of credit disbursement to the agriculture sector by banks, the Ministry in their written reply, stated as below:-

"The details of achievements under the "Package for Doubling of Credit flow to Agriculture" during 2004-05 and 2005-06 are given below:-

(Rs. in crore)

Agency	Target (2004-05)	Disbursements Apr 2004- Mar 2005	Target (2005-06)	Disbursements Apr 2005- Mar 2006
Comm. Banks	57,000	81,481.14	87,200	1,25,477.01
Coop. Banks	39,000	31,231.44	38,600	39,403.77
RRBs	8,500	12,404.00	15,200	15,222.90
Other Agencies	-	192.79	-	381.89
Total	1,04,500 (say 1,05,000)	1,25,309.37	1,41,000	1,80,485.57

32. The data on direct and indirect advances to agricultural sector by public and private sector banks as reported in various issues of Trend and Progress of Banking in India, published by RBI is as below:

(in percentage of net bank credit)

	Public Sector Banks			Private Sector Banks		
Year	Direct	Indirect	Total	Direct	Indirect	Total
March,2003	10.84	4.54	15.34	6.28	8.06	10.78
March,2004	11.08	4.33	15.41	7.81	8.00	15.81
March,2005	11.52	4.16	15.68	7.59	5.82	12.09
March,2006	11.00	4.30	15.20	9.0	5.6	13.50

33. The Report on Trend and Progress of Banking in India, 2005-06, states that only 10 public sector banks *viz*. Allahabad Bank, Andhra Bank, Bank of India, Indian Bank, Indian Overseas Bank, Punjab National Bank, Syndicate Bank, State Bank of Bikaner and Jaipur, State Bank of Indore and State Bank of Saurashtra were able to achieve the sub target for agriculture.

Allocation to various trenches of RIDF by public and private sector banks during the last three years is shown below -

Amount of allotment (Rs. Crore)

Bank	RIDF IX	RIDF X	RIDF XI
Public Sector Banks	3874.09	5836.25	6174.68
Private Sector Banks	1625.91	2163.75	1825.32

34. On being asked about reasons for continuous increase in parking of funds under RIDF by banks on account of the shortfalls in extending agricultural credit, the Ministry furnished the following in reply:-

"The commercial banks are discouraged from keeping the deposits under RIDF. For this purpose, the rate of interest payable on the deposits under RIDF had been made inversely proportional to their shortfall in agriculture lending from RIDF VIII (2003-04) onwards. In other words, higher the shortfall, lower the rate of interest on the deposits under RIDF. Presently, the rate of interest payable to banks is ranging from 3 to 6%. In case banks are able to lend to agriculture directly, they can earn higher interest. It is, therefore, a loss making proposition for banks rather than an incentive to contribute money as RIDF deposits.

The overall corpus of RIDF is decided by Govt. of India and announced in the Union Budget every year. The bank-wise allocation of contribution under RIDF is decided by RBI based on shortfall in the lending to the priority sector and/or agriculture by the Domestic Schedule Commercial Banks in the public as well as private sector as on the last reporting Friday of March, of the preceding year.

RBI does the bank-wise allocation of contribution under RIDF for all banks including the private sector banks, based on their shortfall in lending to the priority sector and/or agriculture sector. Hence, any increase/decrease of RIDF allocations of Private Sector Banks can be explained only by the decrease/increase in their lending to priority sector/agriculture."

35. Regarding the policy measures taken by the Government to address the issue of farmer's suicides due to financial distress, the Ministry furnished the following written reply:

"Reserve Bank of India set up a Working Group in June 2006 to suggest measures to assist distressed farmers under the Chairmanship of Prof. S.S. Johl. The Group has since submitted its report in November 2006. The recommendations are under the consideration of the RBI.

In order to ameliorate the condition of distressed farmers, the Government of India has announced a Debt Relief Package in 31 distress districts in the country, which have witnessed a spate of farmers' suicides. The Package includes, in the interim, compensation to families of victims from the prime Minister's Relief Package, waiver of overdue interest/restructuring of principal amount, increased flow of agriculture credit. Certain real sector issues, such as increasing irrigation potential (including micro irrigation), rainwater harvesting, construction of check dams, holistic watershed development, diversification of income generating activities by giving fillip to dairy/fisheries/horticulture, enhancing seed replacement rate, etc., are also being addressed, over a longer period."

36. As regards the progress of special debt relief package for farmers in Andhra Pradesh; the Ministry submitted following:-

"Progress in the implementation of the Rehabilitation Package as on 28th February, 2007 with respect to Credit related Measures in the 16 distressed districts of Andhra Pradesh is as under:-

1. Interest Waiver :

(Rs. in crores)

Name of the State	Overdue interest to be waived	Overdue interest waived
Andhra Pradesh	1436.44	1992.18

2. Rescheduling of Debts :

(Rs. in crores)

Name of the State	Loans to be rescheduled	Loans rescheduled	
	Amount	No. of Accounts	Amount
Andhra Pradesh	5745.76	1053.76	7533.17*

*Provisional

Under the package, the entire overdue loans of farmers in the distressed districts as on 01st July, 2006 will be waived and all those farmers will hence have no past burden as on that date, so that they will immediately be eligible for fresh loans from the banking system.

3. Credit Flow :

(Rs. in crores)

Name of the State	Target	Disbursement
Andhra Pradesh	13817.78	11734.97

37. Questioned further about any proposal to extend the debt relief package for distressed farmers in other areas of the country, the Ministry submitted following in their post evidence replies:-

"The rehabilitation package has been announced by Government in only 31 identified Districts of Andhra Pradesh (16), Maharashtra (6), Karnataka (6) and Kerala (3). Since only 31 districts have been identified by Ministry of Agriculture and Cooperation where a large number of farmers have been reported to commit suicides, the rehabilitation package is being implemented in these districts only."

38. The Committee observe that, in pursuance of the Budget announcement of 2006-07, the Government has been providing interest subvention of 2 percent for enabling banks to extend short term crop loans to farmers at 7 per cent rate of interest with an upper limit of Rs. 3 lakh on the loan amount. The interest subvention of 2 percent is made available to public sector banks, Regional Rural Banks and Cooperative Banks on the lending from their own resources; and Cooperative Banks and RRBs are refinanced at concessional rates on their borrowings from NABARD.

39. Though the interest subvention scheme to the extent of 2 percent has been formulated to enable short-term production credit to farmers at 7 percent interest rate, the Committee find this not to be adequate *vis-a-vis* the requirements of the farming community. For instance, the National Commission for Farmers headed by Dr. M. S. Swaminathan had recommended for reducing the interest rate on crop loans i.e. short term loans to 4 per cent. The representatives of the Ministry of Finance had, on the issue of extending cheaper short-term credit to the farming community, contended that the rate of interest applicable to the agricultural sector

could not be looked into in isolation *vis-a-vis* other sectors such as micro-finance, where credit at higher interest rates was being effectively absorbed. The Committee are, however, not inclined to agree to this viewpoint, as agriculture has long remained starved of funds, which has the negative effect of incapacitating farmers in continuing with agricultural operations profitably. The Committee, therefore, desire that the suggestions of the National Commission on Farmers, which include *inter alia*, reducing the rate of interest on crop loans are acted upon so as to enable the farmers to access Institutional credit on large scale.

40. The Committee further observe that long term loans for agriculture purposes are provided as investment credit for farm mechanization, irrigation equipment loans etc. and the rate of interest on such loans range between 10 percent to 14 percent per annum, which in their view is unviable. As long terms loans at high range of interest can deter farmers to go in for mechanization and technology infusion in a big way, the Committee recommend the Government/RBI to initiate steps to further reduce the rate of interest on long term agricultural loans so as to make it an affordable proposition for farmers.

41. The Committee note from the information furnished that banks as a whole have been able to achieve the targets set out under the 'package for doubling of credit flow to agriculture' during 2005-06. From the information made available, the Committee, however, cannot also, help noting that of the 27 public sector banks, only 10 banks could achieve the targeted level of extending 18% of the net bank credit to the agriculture sector. The shortfalls in meeting the agriculture lending targets is also reflected in the growing accruals to the RIDF on account of the compensatory deposits made by banks. The growing accruals to the RIDF is also indicative of the fact that the penal rate of interest payable on RIDF deposits has not served as an effective deterrent on banks from shying away from lending to the agricultural sector. The Committee, therefore, emphasise that the Government should make concerted efforts in impressing on banks to increase the agricultural credit disbursement. The Committee also express the need for ensuring that the yearly targets for agricultural lending are so designed that the banks are able to fulfil the obligation of achieving the target of extending 18 percent credit to the agriculture sector at the earliest. RBI should strictly monitor the performance of the banks in this regard.

3. Computerisation and introduction of core banking solutions in public sector banks

42. Computerization of banking business received high importance in 2005-06. For this purpose banks invested heavily in technology. Between September 1999 and March 2006, public sector banks incurred an expenditure of Rs. 10,676 crore on computerization and development of communication networks.

43. The number of branches providing core banking solutions (CBS) has increased significantly in recent years. The CBS provides a host of benefits such as any where banking *i.e.* anywhere access and quick funds movement at optimal costs and in an efficient manner. While new private sector banks, foreign banks and a few old private sector banks have already put in place core banking solutions, public sector banks are increasingly adopting similar systems. The total number of branches providing CBS increased from 11.0 per cent as on March 31, 2005 to 28.9 per cent as on March 31, 2006. Many of the PSBs having fully computerised branches adopted CBS during the year.

44. Out of 27 public sector banks, branches of as many as ten public sector banks were 100 per cent computerised, while branches of another 12 banks were more than 50 per cent computerized. Branches of five PSBs were less than 50 per cent computerised.

45. Asked to explain the reasons for slow implementation of Core Banking Solutions and Computerisation process in public sector banks while all the private sector banks and foreign banks quickly migrated to this system, the Ministry furnished the following in reply:-

> "It may not be appropriate to compare the new private sector banks and foreign banks with the PSBs for implementation of Core Banking Solutions and other technology related initiatives for the reason that the new private sector banks and the foreign banks in India have commenced operations on a full technology platform whereas the public sector banks are migrating from the manual system of operations to computerization and then implementing the Core Banking Solutions for anywhere and anytime banking. Also, the public sector banks have branches spread out across the country including rural areas and the rural areas in particular, do not have adequate infrastructure in terms of power, telecom lines etc. for implementing the technology on a fast pace.
>
> While the Public Sector Banks are making every efforts to complete the computerization process in their branches, the reasons for slow

implementaton of Core Banking Solutions (CBS) are as follows:-

(i) Most of the public sector banks started implementation of CBS in 2004-2005 only. But all the banks have indicated their plans to complete the migration to CBS in phases in the next one to four years.

(ii) Lack of infrastructural facilities like stable power supply, non availability of service providers for leased lines and other mode of connectivity in many semi urban and rural places have been major impediments in faster implementation of CBS.

(iii) Many technological issues like software, hardware, networking etc. have also hindered the fast implementation of CBS in the public sector banks."

46. In response to a further query on the reasons for the delay in initiating the implementation of CBS by Public Sector Banks till 2004-05, the Ministry in their written reply, stated as below:-

"Reasons, as indicted by banks, for slow implementation of Core Banking Solution (CBS), are as under:-

(1) As on 30 September, 2006, the PSBs (including State Bank of India) have around 61% (23% Semi urban & 38% rural) branches located in semi urban and rural areas. These areas do not have adequate infrastructural facilities to support computerization/introduction of modern technology in bank branches. Provision of networking facility, uninterrupted power supply will hasten implementation of the modern technology in the banks.

(2) In semi urban and rural branches acquisition of hardware, software and networking equipments have been major issues in implementation of CBS in PSBs. Basically such issues have become main reasons for variations in the rate of adoption of modern technology across the banks.

(3) Non-availability of suitable service providers and skilled manpower especially in semi urban and rural areas has slowed down the process of computerization in PSBs. Another major challenge for the banks was handling of multiple vendors engaged in the implementation of such a huge project.

(4) Banks have felt that before introduction of technology, it was essential to make adequate arrangements for seamless

customer service and to ensure that day-to-day operations were not affected during the course of implementation of modern technology. Therefore, priority was given to resolve the problems of networking, hardware and software without affecting essential customer services.

(5) For some banks the delay is attributable to "Legacy Issues" *viz.*; branches/offices of banks working on different technological platforms. Integration of these diverse systems and imparting training to the staffs to adapt to the migration to the new platform has been a challenging job.

(6) Many of the branches of PSBs located in far-flung areas of the country could not be brought into the Core Banking Solution (CBS) network because networking facility could not be made available immediately in these areas.

(7) Some banks decided to take an integrated view on adoption of modern technology, which included up-gradation of infrastructure at Data Centre (DC), Disaster Recovery Centre (DRC) and extending of Wide Area Network (WAN)".

47. The Committee note that despite incurring an expenditure of Rs. 10,676 crore from September, 1999 to March, 2006 on computerization and development of communication network of public sector banks, only 10 of the 27 public sector banks are fully computerised as on date. Twelve of the public sector banks presently have more than 50 percent fully computerized branches, while in the case of rest of the five banks, less than 50 per cent branches have been fully computerized.

48. On the specific issue of implementing Core Banking Solutions (CBS), which provide a host of benefits such as 'anywhere banking', the Committee note from the information furnished that the public sector banks initiated the implementation of CBS in the year 2004-05 and it will take another four years to complete the process. As on March 31, 2006, 28.9 percent of branches of public sector banks were providing CBS.

49. The Committee are concerned to find that the public sector banks have lagged behind their private and foreign counterparts in implementing modern technology despite incurring a huge expenditure of Rs. 10,676 crore in the preceding few years. Since the process of implementing CBS was initiated by the public sector banks as late as in 2004-05, one would have expected them to pick up pace in this regard in order to catch up with the private sector and foreign

banks. However, the Committee are perturbed to note that this has not happened. The reasons advanced for the slow and tardy progress of implementation of the modernization plans by public sector banks, as informed, include *inter-alia* problems relating to acquisition of hardware, software and networking equipments, non availability of service providers and skilled manpower, as well as 'legacy issues' of branches/offices working on different technological platforms. The Committee are utterly displeased to note tardy progress so far made by the public sector banks towards modernization. They, therefore, recommend that appropriate measures be taken for implementation of modern technology in public sector banks at a faster pace. The Committee also express the need on the part of RBI to impress upon the banks to complete the transformation towards CBS at the earliest. The Government/RBI must provide assistance to the banks in addressing problems relating to computer hardware and software, networking equipments, skilled manpower etc., which are said to be hindering the progress of modernization of the public sector banking practices and processes.

4. Lending to Weaker Sections by Commercial Banks

50. A target of 40 per cent of net bank credit has been stipulated for lending to the priority sector by domestic Scheduled Commercial banks, both in the public and private sectors. Within this, a sub target of 10 per cent of net bank credit has been stipulated for lending to weaker sections.

51. The Weaker Sections under priority sector, *inter alia*, include beneficiaries of the Government sponsored Schemes like Swarnajayanti Gram Swarojgar Yojana (SGSY), Swarna Jayanti Shahari Rozgar Yojana (SJSRY), Scheme of Liberation and Rehabilitation of Scavengers, (SLRS), Differential Rate of Interest scheme (DRI) and advances to Self Help Groups.

52. As reported by the Reserve Bank of India (RBI), data on advances to Weaker Sections by public sector banks and private sector banks for the years 2002-03, 2003-04, 2004-05 & 2005-06 is as under:

(Rs. Amt. in crore)

Year	Public Sector Banks		Private Sector Banks	
	outstanding advances to Weaker Sections	% to Net Bank Credit (NBC)	outstanding advances to Weaker Sections	% to NBC
2002-03	32703	6.74	1380	1.7
2003-04	38769	6.91	1509	1.5
2004-05	55016	7.67	1938	1.2
2005-06	78158	7.70	4174	1.7

Source: public and private sector banks

53. The outstanding advances to weaker sections by the public sector banks have been growing steadily in absolute terms since the year 2002-03. However, in terms of percentage the increase in growth has been marginal since the year 2002-03 which can be attributed to the substantial increase in NBC.

54. When asked about the reasons for not achieving the targeted lending of 10 per cent by the public sector banks under the Government sponsored schemes, the Ministry furnished the following in reply:-

- "Lack of co-ordination between banks and Government Sponsoring Agencies.

- Non-completion of formalities by the borrowers due to illiteracy
- Bunching of applications and their submission by the Sponsoring Agencies at the fag end of the year
- Lack of awareness of the guidelines of the scheme among the officials of both banks and Government Sponsoring Agencies
- Non-receipt of subsidy/delay in receipt of subsidy
- Lack of forward and backward linkages
- Diversion of funds by the borrowers for their high consumption needs."
- Poor sponsoring of applications
- Poor recovery under the schemes
- No fixed place of business/address of the applicant and
- Disappearance of the borrowers after availing the benefits under the schemes."

55. Further, the Ministry furnished the following reasons for the dismal performance of private banks in lending to Weaker Sections:

> "Though the outstanding advances to weaker sections by the private sector banks also have been growing steadily in absolute terms since the year 2002-03, in terms of percentage, a varying trend was indicated in the percentage to NBC during the last four years, primarily due to substantial increase in NBC.
>
> The reasons for non-achievement of targets by public sector banks given above are also applicable to private sector banks with regard to Government Sponsored Schemes. In addition, their limited branch presence in the rural areas is also a factor hampering the achievement of targets set under weaker sections."

56. In this regard, the Secretary–Financial Sector, submitted as follows during the course of oral evidence:—

> "As regards loaning to the weaker sections is concerned, loaning to the weaker sections in terms of percentage and also in terms of absolute amounts is going up. It has not declined. I have the data and I can give the further break-down also. For example, in March 2003, it was 6.74 per cent and it rose to 7.61 per cent in 2005-06. Now, it is 7.7 per cent. In absolute terms, what was Rs. 32,703 crore at the end of March 2003, it is Rs. 78,158 crore at the end of March 2006. In absolute terms and in percentage terms, both way it is increasing and not declining."

57. As regards the measures taken to increase and achieve the targeted level of lending to Weaker Sections, the Ministry stated as below:-

"The following measures have been taken by RBI to increase and achieve the targeted level of lending to weaker sections by scheduled commercial banks:

(a) As recommended by the Advisory Committee on Flow of Credit to Agriculture and Related Activities (Vyas Committee), in order to improve the flow of credit to small and marginal farmers (which form a part of the weaker sections), the public sector banks have been advised to make efforts to increase their disbursements to small and marginal farmers to 40 per cent of their direct disbursements under the Special Agricultural Credit Plan (SACP) by March 2007.

(b) With a view to bringing in urban poor into the formal financial system, banks have been advised to advance loans to distressed urban poor to prepay their debt to non-institutional lenders, against appropriate collateral or group security, subject to the guidelines to be approved by their Boards of Directors.

(c) One Time Settlement (OTS) Scheme for Small and Marginal Farmers*:*

Banks have been advised to formulate guidelines, with the approval of their Boards of Directors, on one-time settlement for small and marginal farmers, who have been declared as defaulters and have become ineligible for fresh credit. On settlement, these farmers would become eligible for fresh finance.

(d) As a part of monitoring/review mechanism of the performance of banks under Government Sponsored Schemes, RBI has been advising all SCBs to implement the scheme in its true spirit and achieve the targets set under the schemes.

(e) The RBI, in the recent years, has initiated a number of measures to tackle financial inclusion. The Annual Policy Statement of the Reserve Bank for 2005-06, urged the banks to review their existing practices to align them with the objective of financial inclusion, to make available a basic banking 'no frills' account either with nil or very low/ minimum balances as well as charges that would make such accounts accessible to vast sections of the population. Banks have been specifically advised to allow limited overdraft facilities in 'no frills' accounts, without any collateral. All SLBC convener banks have been advised (in April 2006) to initiate action for identifying at least one district in their state/Union Territory for 100% financial inclusion. The 'Know Your Customer' procedure for opening accounts has been simplified so that people from low-income group do not face problems in opening new accounts. Guidelines have been issued to banks to enhance their outreach by utilizing the services of civil society organizations, farmers' clubs, NGOs, post offices etc., as business facilitators and business correspondents. Special developmental studies have been carried out by Working Groups constituted by the RBI to enhance the outreach of banking services in certain backward regions of the country such as the North Eastern Region, Bihar, Chhattisgarh and Uttaranchal. The recommendations made by the committee are under implementation.

(f) Introduction of General Credit Card (GCC): - With a view to provide credit card facilities in the rural areas, all scheduled commercial banks including RRBs, have been advised to introduce GCC scheme to their constituents in rural and semi-urban areas, based on the assessment of income and cash flow of the household similar to that prevailing under normal credit card. The card can be issued up to a limit of Rs. 25,000/-. It has the potential to meet the production as well as consumption credit needs of disadvantaged borrowers in rural and semi-urban areas.

(g) Advances to Self Help Groups (SHGs) also form a part of weaker sections. Banks have been increasingly resorting to financing through SHGs, for increasing their micro finance portfolio. The Union Budget envisaged to credit link a total number of 3,85,000 SHGs during the year 2007-08. As at the end of March 2006 a total of 11,88,040 SHGs (cumulative) have been credit linked by commercial banks with a credit disbursement amounting to Rs. 6987 crore.

(h) As per the Union Budget 2007-08, the limit of the loan under Differential Rate of Interest scheme has been raised from Rs. 6,500 to Rs. 15,000 and the limit of the housing loan from Rs. 5,000 to Rs. 20,000 per beneficiary. This is expected to increase disbursement of loans to the weaker sections under the scheme."

58. Though scheduled commercial banks are required to extend a minimum of 10 percent of the Net Banking Credit to the weaker sections as a part of the overall target of extending 40 percent of the credit to priority sector, the data for the last four years shows that the actual lending has been much lower, both in the case of public sector and private sector banks. While the public sector banks extended 7.67 and 7.70 percent of the Net Banking Credit to the weaker sections in 2004-05 and 2005-06, such lending extended by the private sector banks was as low as 1.2 percent and 1.7 percent during the years. The principal reasons cited for non-compliance of the lending targets for the weaker sections include, *inter alia*, delay in submission of forms by sponsoring agencies, lack of awareness of guidelines of schemes among officials of both sponsoring agencies and banks, poor sponsoring of applications, poor recovery and defaults by borrowers.

59. The Committee are surprised at the satisfaction being derived by the Government that the lending to the weaker sections of society has been steadily increasing in absolute terms since 2002-03. Government should not lose sight of the fact that the lending to this section in terms of percentage of net bank credit has no where been near the stipulated 10 percent. The Committee, therefore, recommend that the Government/RBI should take appropriate steps for increasing awareness and enabling effective co-ordination between banks and sponsoring agencies so that timely credit is made available to the borrowers. The banks also need to be impressed upon to promote awareness among the weaker sections about the availability of credit. The Committee would also like to be apprised of the details of the interest charged on the loan-schemes to the poor sections as well as the data on recoveries of such loans.

5. Crop Insurance

60. Government of India launched the National Agricultural Insurance Scheme (NAIS) from Rabi 1999-2000 season to mitigate the losses suffered by farmers on account of shortfall in yield due to non preventable natural calamities. The Scheme is being implemented by Agriculture Insurance Company of India (AIC) Limited. The features of National Agricultural Insurance Scheme are given below:

- The Scheme is compulsory for loanee farmers and voluntary for non-loanee farmers.
- Presently 23 States / 2UTs are participating in the Scheme.
- All food crops (cereals, millets & pulses), oilseeds and annual commercial / horticultural crops can be covered subject to the availability of past yield data and that the State Government is able to conduct the requisite number of CCEs.
- The Scheme is implemented on 'Area Approach' basis and claim is settled on the basis of Yield Data received from the State Governments based on conduct of requisite number of Crop Cutting Experiments. On experimental basis crop losses on individual basis are assessed in case of localized calamities, in one Block/Taluka in implementing States.
- It provides comprehensive risk insurance to cover yield losses due to non-preventable risks like fire, hailstorm, flood, drought, pests/diseases etc.
- At present, the small and marginal farmers are provided 10% subsidy on the premium.
- Premium rates:

S.No	Season	Crops	Premium rate
1	Kharif	Bajra & Oilseeds Other crops (cereals, other millets & pulses)	3.5% of SI or Actuarial rate, whichever is less 2.5% of SI or Actuarial rate, whichever is less
2	Rabi	Wheat Other crops (other cereals, millets, pulses & oilseeds)	1.5% of SI or Actuarial rate, whichever is less 2.0% of SI or Actuarial rate, whichever is less
3	Kharif & Rabi	Annual Commercial/ annual Horticultural crops	Actuarial rates

*Sum Insured:

Loanee farmers.

Compulsory coverage: Loan amount

NAIS - DETAILS OF NUMBER OF FARMERS SUBSRIBED & BENEFITED

Season	Kharif 2003	Rabi 2003-04	Kharif 2004	Rabi 2004-05	Kharif 2005	Rabi 2005-06
Farmers Subscribed	**7970830**	**4421287**	**12687046**	**3531045**	**12674080**	**4048524**
Farmers Benefited						
Loanee - S/M Farmers	573802	242810	1222455	563141	1234263	590283
Loanee - Others	269652	73888	797814	153701	777820	325441
Loanee - Total	**843454**	**316698**	**2020269**	**716842**	**2012083**	**915724**
Non Loanee - S/M Farmers	275816	636336	342687	29392	312531	34277
Non Loanee - Others	585553	1119882	297980	26545	329680	30073
Non Loanee - Total	**861369**	**1756218**	**640667**	**55937**	**642211**	**64350**
GRAND TOTAL	**1704823**	**2072916**	**2660936**	**772779**	**2654294**	**980074**

61. By way of forwarding details of the measures taken to increase the coverage of farmers under NAIS, the Ministry in their written reply stated as below:—

"A Joint Group under the Chairmanship of Shri A.K. Singh, Additional Secretary, Ministry of Agriculture was constituted to study the improvements required in the existing Crop Insurance Schemes. The Group submitted its report to the Ministry in December, 2004. Based on the recommendations of the Joint Group, the Scheme is being modified. Among other things the Joint Group has proposed the following to widen the nature of insurance cover–

(i) Village Panchayat to be the unit of insurance for major crops.

(ii) Selected pre sowing and post harvest losses also to be compensated.

(iii) Provision for 'on account' payment of claims.

(iv) Indemnity levels should be 90% for low risk areas/crops & 80% for others.

(v) Damage due to wild animals should be covered on individual basis.

(vi) Insurance coverage to perennial horticultural and vegetable crops should be provided.

The Joint Group has submitted its report to the Government and is under the consideration of the Government."

62. Responding to a query on the unit of insurance for major crops, the Secretary - Financial Sector stated as below during the course of oral evidence:—

"As far as the Crop Insurance Scheme is concerned, the intention of the Government is also to reduce the unit maybe from a Block to a Gram Panchayat. But the situation as it is emerging today is that you can do crop insurance only based on crop cutting experiments. If you have to reduce it from Block level to a Gram Panchayat level, you have to conduct 15 – 20 experiments in each Panchayat. This will mean 55 lakh additional crop cutting experiments. At present, we are only doing 6 lakh crop cutting experiments. If we have to do 55 lakh additional crop cutting experiments, it will require a huge amount of man power and it will require funding. We also see the ineffectiveness of doing crop cutting experiments at the Block level. We also would like to do them in smaller units, but it is not possible."

63. The Standing Committee on Finance had, in their 55th Report on Credit Flow to Agriculture and Crop Insurance Scheme presented in 2004-05, recommended as follows in respect of Unit of Insurance:—

"The unit area or the area approach for insurance which differed from State to State and varied from Gram Panchayat in A&N Island to Distt. in J&K might be standardised and fixed as Gram Panchayat for the whole of the country. This area approach might operate through Small Area Crop Estimation Method (SACEM) which might report yields at Gram Panchayat level as designed by the Ministry of Agriculture in consultation with the Indian Agriculture Statistics Research Institute (IASRI)".

64. In their Action Taken Reply on the recommendation, the Ministry stated as under:-

"The unit of insurance under Area approach could be Gram Panchayat, Mandai, Hobli, Circle, Firka, Block, Taluka, etc. as decided by State Government, for each notified crop. For localised calamities, such as hailstorm, landslide, cyclone and localised flooding, the scheme operates on individual farmer basis. However, it is tried out in limited areas only, and will be extended to more areas in the light of operational experience. The reduction in unit area of insurance will help in more realistic assessment of claims, but it may be difficult for implementing States to make an assessment of yield based on Crop Cutting Experiments (CCEs) at smaller unit area level as it will involve a large number of CCEs. The implementing States do not have adequate infrastructure to conduct required number of CCEs. Ministry of Agriculture has made efforts to explore alternative methods for making assessment of yield at smaller unit area through Small Area Crop Estimation Method (SACEM), which was based on farmer's appraisal, was experimental in selected districts/crops and it was not proved as an effective method. Inspite of all this, the issue of reduction in the unit area of insurance is under consideration as a part of the review of NAIS".

65. During the course of further oral evidence on Demands for Grants (2007-08), the Secretary, Financial Sector submitted following before the Committee on this issue:-

"We have two things here – crop insurance and weather insurance, which is rainfall based, for which intense amount of crop cutting experiments will have to be done, especially if you want to reduce it from the block level to the gram panchayat level. The Government's intention is the same. If you see in a village, on one side, there is rainfall and on the other side, there is no rainfall. Crop patterns are very different. So, the idea is to try and reduce it to the minimum level, that means, to the gram panchayat. The only difficulty is that we need to do 16-20 crop cutting experiments and we need to spend Rs. 300 per experiment. At present, we have 6 lakh crop cutting experiments and if we have to reduce it to gram panchayat level, 55 lakh more crop cutting experiments are required. This has to be done by the Ministry of Agriculture along with State Government support staff."

66. When queried about the main features of the weather insurance scheme run by the Agriculture Insurance Company, the Ministry in their written submission stated as below:-

"Varsha Bima Yojana is being run by Agriculture Insurance Company of India Limited (AIC) on its own on pilot basis and at present the Government is not extending any support to the scheme.

The main features of Varsh Bima 2005 were:

1. Varsha Bima–2005 was designed for specific crops where historical evidence showed that the yield of these crops is strongly correlated to rainfall.
2. The scheme targeted only non-loanee farmers.
3. The scheme provided two options – (i) Sowing Failure Insurance (SFI) covering deficit rainfall from 15th June to 15th August and (ii) Seasonal Rainfall Insurance (SRI) covering rainfall during the entire crop season. The scheme was available up to 15th June for Sowing Failure Option and up to 30th June for Seasonal Rainfall Insurance.
4. Agriculture Insurance Company of India Limited (AIC) shall compensate the insured against the likelihood of financial loss on account of anticipated crop yield loss resulting from deficit rainfall incidence, subject to the terms and conditions of the scheme.

Weather Insurance because of reliability of weather data and early settlement of claims is apparently perceived as a better product for field crops. However, there is a need to keep the premium rates affordable by subsidizing the premium."

67. Asked about the likelihood of any proposal to improve the NAIS by incorporating features of Weather Insurance Scheme, the Ministry furnished the following reply:—

"National Agricultural Insurance Scheme (NAIS) is an yield guarantee scheme whereas weather insurance compensates the insured against the likelihood of financial loss resulting from deficit rainfall incidence, as such, it is very difficult to merge weather insurance features into NAIS. However, weather insurance parameters may be used for making payments against losses due to sowing failure and for making 'on account' payments as suggested under modified NAIS. This shall, however, be subjected to availability of authentic rainfall data at insurance unit level".

68. In response to a query on premium rate being charged from non-loanee farmers under the Varsha Bima Yojana, the Ministry, in their written submission, stated as below:—

"Varsha Bima Yojana is implemented by Agriculture Insurance Company of India Ltd. (AIC) as its in-house insurance product since Kharif-2004 season. During Kharif-2005, the Yojana was implemented in the surrounding areas of about 125 India Metrological Departments (IMD) rain gauge stations spread across 10 States. On an average 2 or 3 blocks/tehsils have been covered under each IMD rain gauge station. The Yojana during 2005 provided three options—(i) Sowing Failure Insurance (SFI) covering deficit rainfall from 15th June to 15th August, (ii) Seasonal Rainfall Insurance (SRI) covering rainfall during the entire crop season and (iii) Vegetative Stage Cover for the period from 15th August to October/November.

Premium rates based on actuarial valuation varied from location to location and crop to crop on the basis of distribution and trends of rainfall data of historical period (about 25-30 years) and the trends in historical crop yield data. The rates ranged from 6%-9%. These rates without an element of subsidy are higher compared to rates under National Agricultural Insurance Scheme (NAIS)."

69. With regard to a query on the recommendations of the National Commission on Farmers (NCF) in respect of crop insurance and action taken by the Government on the basis of the recommendations, the Ministry submitted the following in reply:—

"In its Fifth and Final report, the NCF, has recommended, 'an integrated credit-cum-crop-livestock-human health insurance package should be developed and set in place. Crop insurance cover needs to be immediately expanded to cover the entire country and all crops, with reduced premiums and a Rural Insurance Development Fund may be created to take up development work for spreading rural insurance.

Keeping the above in view, the NCF in its revised Draft National Policy for Farmers has proposed that farmers need user-friendly insurance instruments covering production, right from sowing to post-harvest operations and also to cover the market risks for all crops throughout the country, in order to insulate them from financial distress and in the process to make agriculture financially viable. Satellite imagery and agro-climatic analyses can play a significant role in evaluating the extent of crop losses and thus speed up the process of settling claims.

Initiatives under implementation broadly on lines of Recommendations of NCF

The recommendations made by the NCF are under examination and final view about their implementation is yet to be taken by the Government.

As regard initiative taken in connection with insurance, the concerned Departments have indicated the following:

a. To make the existing National Agricultural Insurance Scheme (NAIS) more farmer friendly by expanding its scope of coverage, a review of NAIS, based on the recommendations of the Joint Group on Crop Insurance, is under consideration of the Government.

b. In Budget 2007-08, it has been announced that NAIS is to be continued for Kharif and Rabi 2007-08 with a provision of Rs. 500 crore. It has also been stated that an allocation of Rs. 100 crore will be made during 2007-08 for weather based crop insurance scheme to be started by Agricultural Insurance Corporation on a pilot basis as an alternative to NAIS.

c. A Universal Health Insurance Scheme (UHIS) to provide health insurance to poor people has already been launched. There is also a provision of rebate in premium for BPL families.

d. Further, a new Scheme called 'Aam Admi Bima Yojana' will be introduced for death and disability cover through LIC to rural landless households. Head of the family or one earning member in family would be insured."

70. The National Agricultural Insurance Scheme (NAIS), implemented by the Agricultural Insurance Company of India Limited (AIC), since Rabi 1999-2000 is the principal scheme presently in operation for administration of crop insurance. The scheme is being implemented on 'Area approach' with the block/tehsil taken as a 'unit area' and claims settled on the basis of yield data received from the State Governments on the basis of conduct of requisite number of crop cutting experiments. While loanee farmers are compulsorily covered under the scheme with the Government providing a 10 per cent subsidy on the premium amounts, the scheme is voluntary for non-loanee farmers. It is seen from the information furnished that in Kharif 2004, 12687046 farmers were covered under the scheme, of whom 1222455 loanee farmers were benefited. In Kharif 2005 a total of 12674080 farmers subscribed to the scheme and 1234263 loanee farmers were benefited. Further, while 35,31045 and 4048524 loanee farmers subscribed to this scheme in Rabi 2004-05 and Rabi 2005-06 respectively, the number of beneficiaries were 563141 and 590283 farmers in the two consecutive cropping seasons.

71. The Committee observe that a Joint Group of the Ministry of Agriculture, set up to study the improvements required in the crop insurance schemes which submitted its report in December, 2004 had *inter alia* recommended that the village Panchayat be taken as the unit of insurance for major crops; covering selected pre-sowing and post harvest losses, fixing indemnity levels at 90 per cent in low risk areas/crops and 80 per cent for others, and extending insurance coverage to perennial horticultural and vegetable crops and damage caused by wild animals on individual basis. In a similar vein, the Standing Committee on Finance had in their report on Credit Flow to Agriculture and Crop Insurance Scheme presented in 2004-05 recommended that the unit area or area approach of insurance coverage be standardized and fixed as the Gram Panchayat for the whole of the country. In their action taken note on the recommendation of the Committee, the Ministry of Finance had agreed with the view that reduction in the unit area of insurance would help in 'more realistic assessment of claims'. A representative of the Ministry too informed *inter alia* that the intention of the Government was also to reduce the unit area of insurance from the block to Gram panchayat level.

72. The Committee note that while the Government agrees that reducing the unit area of insurance to the village panchayat would enable in realistic and objective assessment of claims, the avowed hindrance in this regard is the additional expenditure and manpower requirements for the crop cutting experiments. The fact however remains that the expert groups set up by the Government too had recommended that the unit area for the crop insurance coverage needs to be reduced for enabling realistic assessment of claims. As recommended in their earlier report of 2004-05, the Committee, therefore, reiterate the need for standardizing and fixing the unit area of insurance coverage as 'Gram Panchayat'. The Committee are further surprised to note that the report of the Joint Group, which was submitted as far back as in December, 2004 is still being considered. As agreed to by the representatives of Ministry while tendering evidence, the Committee desire that the Ministry of Finance should come out with a Status paper on crop insurance scheme within a period of three months specifying the extra trained manpower and extra funding which are required for undertaking additional crop cutting experiments as a result of reducing the unit of insurance to the village panchayat level.

73. The Committee further note that the Agricultural Insurance Company has launched a 'weather based insurance scheme', namely

the Varsha Bima Yojana for specific crops whose yields are largely co-related to rainfall. The Committee, however, find that the premium rate under the scheme which ranges from 6 to 9 per cent is quite high. The Government too have in their written submission agreed that there was a 'need to keep the premium rate affordable by subsidizing the scheme'. The Committee, therefore, recommend that the Government needs to subsidise the premium under the scheme so that a large number of farmers can avail the scheme.

6. Customer Service in the Banking Sector

74. Complaints received against commercial banks located in the jurisdiction of various Regional Offices of the Reserve Bank for the period July 1, 2005 to June 30, 2006 have been collated and categorised into seven broad heads, *viz*., deposit accounts, remittance/collection facility, loans/advances (general and housing loan), credit cards, activities of Direct Selling Agents (DSAs), harassment in recovery of loans, and general/others. Although number of complaints received against public sector banks, in absolute terms, were the largest, average complaints per branch for public sector banks was much lower ranging from 0.02 to 0.49, as against 0.01 to 1.39 for private sector banks and 0.11 to 8.59 in the case of foreign banks. Most of the complaints were in the category of credit cards (17.20 per cent), followed by deposit accounts (16.39 per cent). Complaints in respect of credit cards were largely against foreign banks and new private sector banks.

75. The Reserve Bank of India had set up a Committee on Procedures and Performance Audit on Public Services (CPPAPS) in December 2003 under the Chairmanship of Shri S.S. Tarapore.

76. The CPPAPS had submitted reports dealing with; (a) exchange control matters relating to individuals; (b) government transactions relating to individuals (c) banking operations: deposit accounts and other facilities relating to individuals (non-business); and (d) Currency management.

77. On the recommendations of the CPPAPS, RBI advised the banks, vide various circulars issued from time to time to ensure the following:

(a) Both the drop box facility and the facility for acknowledgement of cheques at the regular collection counters should be available to the customers.

(b) They should refrain from sending cheque books by courier and ensure that they are delivered over the counter to the depositor or his authorised representative.

(c) They should avoid inscrutable entries in statement of accounts/pass books and ensure that brief and intelligible particulars are invariably entered in them.

(d) They should give prior intimation of changes in the prescribed minimum balance in the saving bank accounts.

(e) It was also clarified that the Non-Resident Ordinary (NRO) deposit accounts may be held by non-residents jointly with residents.

(f) In case banks desire to collect any information about the customer for a purpose other than "Know Your Customer" requirements it should not form part of the account opening form and the same should be collected separately, purely on a voluntary basis.

(g) To disclose Statement of Complaints/Unimplemented Awards of Banking Ombudsman along with financial results.

78. Asked about the mechanism for ensuring compliance with the guidelines and practices as suggested by RBI by banks; the Ministry stated as below:

"Based on the recommendations of the CPPAPS, RBI has issued various circulars to banks. Adherence to the guidelines/instructions issued by RBI regarding customer service are being looked into by Department of Banking Supervision of RBI during the course of their inspection/incognito visits."

79. Data regarding complaints forwarded by RBI to banks for redressal during the period July 1, 2005 to June 30, 2006 is shown in the following table:

Banks	Total No. of complaints received	Deposit account related	Remittance/ Collection	Loans & advances General	Loans & Advances Housing Loan	Credit Cards	Activities of DSAs	Harassment	General/ others
Public Sector Banks	5772	946	478	857	250	993	155	216	1877
Private Sector Banks	1492	229	98	180	67	389	22	42	465
Foreign Banks	879	47	26	72	44	415	107	35	133

80. The statement indicating the number of complaints received by the Banking Division which were sent to the Banks; and complaints received directly by the Banks for the years 2004, 2005 and 2006 is given below:

Number of complaints sent by Banking Division to banks during the calender year 2004, 2005 and 2006.

Year	Number of complaints received	Disposed of
2004	9326	6177
2005	8251	5961
2006	8740	5694

Number of complaints received by the banks directly from the complainants during the calender year 2004, 2005 and 2006.

Year	Number of complaints received	Disposed of
2004	112150	87922
2005	131499	111678
2006	166273	141073

81. In response to a query on the functions of customer service committees, the Ministry stated *inter alia* in their written reply as below:

"As regards the role of the Customer Service Committee of the Board, banks were advised by RBI vide their letter dated August 17, 2004 that it could illustratively, include the formulation of a Comprehensive Deposit Policy, incorporating the issues such as the mode of operation of account in case of death of depositors, the product approval process, the annual survey of depositor satisfaction and the tri-enniel audit of such services. As such, the appeal by the customers directly to the Committee for ventilation of their grievances was not envisaged."

82. On the issue of higher incidence of customer grievances in the case of foreign banks and private banks and measures taken to improve customer service in such banks, the Ministry replied as under:

"The reasons for the incidence of customer grievances against foreign banks may be attributed to the financially literate clientele at metros and urban centres, where majority of their branches are located. Moreover, the credit card portfolio of these banks is very high leading to a large number of credit card related complaints.

RBI has taken a number of steps to resolve complaints and also improve customer service in banks. A separate Department called 'Customer Service Department' has been created in July 2006, to give focused attention to customer service in banks. The Banking Ombudsman Scheme has been revised with effect from January 1, 2006 to enlarge its scope by including additional complaints. RBI has been issuing circulars relating to customer service in banks to all scheduled banks including foreign banks and private sector banks. RBI holds one to one meeting with banks on matters relating to complaints received against them and their internal grievance redressal mechanism especially their response time. Banks have been advised to place the names and addresses of their nodal officers prominently in the web site and notice boards. A complaint form is also required to be placed on their home page. The web links have been created linking the web sites of banks to RBI site to access the service charges and fees. This information entitled 'Links to banks' website on 'service charges' is found under 'important information' under 'For bank customers' in the RBI website. The list of nodal officers of banks are given to any institution (eg., Consumer Helpline) requiring it to ensure that the nodal officers are made the first approach point for public for redressal of their grievances."

83. When questioned about the reasons for the number of complaints in respect of credit card services of banks being the highest, the Ministry stated as below:

"Reserve Bank of India (RBI) has issued comprehensive guidelines on credit card operations to banks/NBFCs on 21st November, 2005. These guidelines cover almost all issues concerning credit and operations like interest and other charges, use of Direct Sales Agents(DSAs)/Direct Marketing Agents (DMAs), protection of consumer rights, redressal of grievances etc. Further, pursuant to the Annual Policy Statement for the year 2006-07, RBI has issued instructions to all the commercial banks on 16.05.2006 to display and update, in their offices/branches as also on their website, the details of various service charges in a format to be approved by the Reserve Bank. The Banking Ombudsman Scheme, 2006 notified w.e.f. 1st January, 2006 enlarges the scope of the scheme to cover customer complaints in areas such as levying service charges without prior notice to the customer and non-adherence to the Fair Practices Code as adopted by the banks, credit card complaints, deficiency in providing the services assured by the banks and their agents etc.

In the Credit Card guidelines, banks have, *inter-alia*, been advised to adhere to the fair practices in debt collection. Banks and their agents should not resort to intimidation or harassment of any kind, either verbal or physical, against any person in their debt collection efforts. Besides, the bank should ensure that the DSAs engaged by them for marketing their credit card products scrupulously adhere to the Code of Conduct for Credit Card operations of the bank. Violation of the guidelines can invite penal action by RBI."

84. In reply to a query on implementation of recommendations of Working Group for Regulatory Mechanism for Cards set up by RBI, the Ministry stated following:—

> "A Working Group was also constituted in the RBI to examine the regulatory and customer protection aspects of credit cards and suggest measures for card usage in a safe, secure and customer friendly manner. The Group suggested various regulatory measures aimed at encouraging growth of credit card business in an efficient manner as well as ensuring that the rules, regulations, standands and practices of the card issuing banks are in alignment with the best customer practices. Based on the recommendations of the Working Group as also the feedback/suggestions on the report of the Group received from members of the public, credit card association, consumer bodies and card issuing banks, final guidelines on credit card operations of banks were formulated and placed on RBI's website www.rbi.org.in in the form of a circular on 21st November, 2005. These guidelines were again consolidated in the form of a Master Circular on credit card Operations."

85. Asked further about the reasons for the per bank complaints being highest in the case of some private sector banks viz., HDFC Bank Ltd., ICICI Bank and foreign banks viz., Citibank, ABN Amro Bank, American Express Bank and HSBC Bank Ltd. the Ministry furnished the following in reply:—

> "The Reserve Bank of India (RBI) has received representations from the public about unreasonable and non-transparent service charges/ hidden charges being levied by banks, especially with respect to non-maintenance of minimum balance in account, delayed payment on credit card dues, remittance charges, ATM/Debit card fees etc. RBI had issued Fair Practices Code for Lenders in May 2003 advising scheduled commercial banks and All India Financial Institutions not to resort to undue harassment of the borrowers. RBI has also issued guidelines on credit card operations on 21.11.2005, which cover almost all issues concerning credit card operations like interest and other charges, wrongful billing, protection of consumer rights, redressal of grievances etc. Further, in order to ensure fair practices in banking services, RBI has, in the Annual Policy Statement for the year 2006-07, proposed to make it obligatory for banks to display and update, in their offices/ branches as also on their website, the details of various service charges in a format to be approved by the Reserve Bank and to constitute a Working Group comprising of the Indian Banks' Association (IBA) and representatives of customers to formulate a

scheme for ensuring reasonableness of bank charges and to incorporate the same in the Fair Practice Code, the compliance of which would be monitored by the Banking Codes and Standards Board of India (BCSBI). The Banking Ombudsman Scheme, 2006 has been notified *w.e.f.* 1st January, 2006 enlarging the scope of the scheme to cover customer complaints in areas such as levying service charges without prior notice to the customer and non-adherence to the Fair Practices Code as adopted by the banks, credit card complaints, deficiency in providing the services assured by the banks through their agents etc."

86. On being asked whether any *suo motu* study of credit card services was conducted by RBI, in view of the largest number of customer grievances being against such services, the Ministry stated:—

"RBI has reported that no such study has been conducted so far."

87. The Committee are dismayed to note that between July 2005 to June 2006 the Reserve Bank of India received 5772 complaints against public sector banks. The total number of complaints against private sector banks was 1492 whereas in case of foreign banks it was 879. They find that whereas the number of complaints received through Banking Division decreased consecutively during the last three years i.e. 2004, 2005, 2006, the number of complaints directly received by banks increased sharply during the same period. Out of the total complaints, maximum number of complaints have been registered against credit card related service of the banks. They note with utmost concern the fact that the RBI has received representations from the public about unreasonable and non-transparent service charges/hidden charges being levied by banks, especially with respect to non maintenance of minimum balance in account, delayed payment on credit card dues, remittance charges, ATM/Debit card fees etc.

88. The Committee find that the RBI has created a separate Customer Service Department in July 2006 to give focused attention to customer service in banks. The Banking Ombudsman Scheme has been revised with effect from January 1, 2006 to include additional complaints. RBI has also issued guidelines on credit card operations on 21st November, 2005. In order to ensure fair practices in banking services, RBI in its Annual Policy Statement for the year 2006-07 proposed to make display and updation of details of various service charges obligatory for the banks. It has also proposed to constitute a Working Group comprising of Indian Banks' Association (IBA) and representatives of customers to formulate a scheme for ensuring

reasonableness of bank charges and to incorporate the same in the Fair Practice Code, the compliance of which would be monitored by the Banking Codes and Standards Board of India (BCSBI). They also find that based on the recommendations of the Working Group, guidelines on credit card operations of banks have been issued in the form of a Master Circular on credit card operations on July 1, 2006.

89. Though the measures taken by RBI are a step towards right direction, a lot depends on the implementation. The Committee are of the view that RBI should play a more proactive role in reducing the incidence of customer grievances in the first instance. In view of the largest number of complaints being in respect of credit card services, RBI should have a study conducted of these services in particular with a view to identify and plug the lacunae in these services. The RBI should also institute a monitoring mechanism to see that all the guidelines issued are scrupulously observed by individual banks. There should be a penal provision against banks for taking negligent attitude towards customer grievances. The number of customer complaints should be gradually reduced by taking appropriate measures to improve the particular service of banks. The Committee would also like to be apprised of the progress in this regard within the next three months.

7. SEBI - Investor Protection Fund

90. The Budget for the year 2006-07 proposed to set up an Investor Protection Fund (IPF) under the aegis of SEBI, funded by fines and penalties recovered by SEBI to bolster confidence among retail investors. These amounts are presently credited to the Consolidated Fund of India as required under the securities laws. Hence, the Fund can be established after the relevant laws are amended permitting credit of these amounts of IPF. It has, therefore, been proposed to amend the SEBI Act to provide for constitution of IPF to which, amongst others, all sums realized by SEBI by way of penalties and settlement of proceedings and compounding of offences under the SEBI Act, the Securities Contracts (Regulation) Act, 1956 and the Depositories Act, 1996, shall be credited.

91. On being asked about the current status of creation of Investor Protection Fund and its utilization, the Ministry stated as below:—

> "Investor Protection Fund is yet to be created. Ministry is now engaged in inter-Ministerial consultations to formulate the amendments. Thereafter the Cabinet will decide the amendments to be made in the SEBI Act. As per current thinking, the objective of the Fund is to compensate the loss caused to an investor arising from violation of any securities law or for any other purpose as may be necessary from time to time."

92. With regard to a query on corpus of Investor Protection Fund, the Ministry in their written reply submitted the following:—

> "Creation of an Investor Protection Fund under the ageis of SEBI would require amendments to the SEBI Act, 1992. A draft Cabinet Note seeking amendments to the SEBI Act for, *inter-alia*, this purpose, has been prepared and sent to various Ministries/ Departments for comments. The draft Cabinet Note proposes to empower SEBI to establish an Investor Protection Fund. It proposes that all sums realized by way of monetary penalty, disgorgement, settlement of proceedings and compounding under the securities laws, shall be credited to this fund. It shall also be credited by: (a) unclaimed (for 7 years) amounts of dividend or interest lying with a mutual fund, Collective Investment Scheme or Venture Capital Fund under any scheme, (b) amounts or securities of clients lying unclaimed (for 7 years) with an intermediary, (c) grants and donations, and (d) interest or other income received from investments made from the fund. It shall be used for compensating the loss caused to an investor arising from violation of any

securities law or for any other purpose as may be prescribed in the Rules. It shall be administered by SEBI in accordance with the Regulations. It shall be kept in the Public Accounts of India."

93. In this regard the Committee in their report on Demands for Grants (2006-07) had recommended following:—

"The Committee note that the proposal to set up an 'Investor Protect on 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 interest 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 on 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 total 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."

94. While furnishing Action Taken Reply, the Ministry submitted following in this regard:—

"In Budget 2006-07, it was announced that an investor protection fund under the aegis of SEBI will be set up, funded by fines and penalties recovered by SEBI. This will bolster confidence among retail investors who should be the key drivers of the capital market. The process of consultation with SEBI for setting up the said fund is already underway. In the ongoing consultations with SEBI in the matter of setting up the Investor Protection Fund, it has been suggested that the Investor Education and Protection Fund would be credited by : (a) unclaimed amounts of dividend or interest lying with a mutual fund, collective investment management company or venture capital fund under any scheme of such fund or company; (b) amounts or securities of clients lying unclaimed with an intermediary in securities market; (c) monies lying unutilised in the Investor Protection Funds of the stock exchanges; (d) all sums realised by way of monetary penalty, disgorgement or settlement of proceedings under this Act; (e) grants and donations given to the Fund by the Central Government, State Governments, Companies or any other institutions for the purposes of the Fund; and (f) the interest or other income received out of the investments made from the Fund. The desirability and feasibility of income from these sources are being examined."

95. In response to a query on the major recommendations of the Expert Group on Protection of Small Investor and New Avenues for Safe Investment of their savings, the Ministry in their written reply stated as under:—

"An Expert Group on 'Protection of Interests of Small investors and New Avenues for Safe Investment of their Savings' was constituted under the Chairmanship of Shri G.N. Bajpai. The Group submitted its report in January, 2005.

The following recommendations of the Expert Group have been accepted:

(i) There is need for centralised investor education effort with adequate funding.

(ii) Courses on different areas in financial market may be developed in consultation with IIMs, ISB etc.

(iii) A group insurance policy may be considered under which small investors may be insured.

(iv) There is a need to lay down a set of comprehensive regulations to govern the profession of "Financial Planners/ Investment Advisers" to enhance the confidence of the investors."

96. The Committee are concerned to note that Investor Protection Fund under the aegis of SEBI was proposed to be created as far back as Budget 2006-07 but the proposed fund has not been created

so far. The proposed fund was to be created with the sums collected by SEBI by way of fines and penalties. At present these proceeds are credited to the Consolidated Fund of India as required under the Securities Law. They further observe that for creation of Investor Protection Fund, SEBI Act needs to be amended so that all proceeds collected by way of penalties, settlement of proceedings and compounding of offences under the SEBI Act, the Securities Contract (Regulation) Act and the Depositories Act could be credited to the Investor Protection Fund.

97. The Committee also notice that an Expert Group was set up under Shri G.N. Bajpai to suggest measures for protection of Interests of small investors and new avenues for safe investment of their savings. The Expert Group has suggested for creation of a centralized investor education effort with adequate funding.

98. The Committee therefore recommend that the Government should bring the legislative amendments required to create a centralized investor protection fund with SEBI without further delay. The Committee also desire that the issue of adequacy of funds to enable SEBI to undertake the investor protection and education activities in a big way should be addressed by the Government. The Committee therefore, reiterate the need to impress on the Government to ensure that adequate capital is available in the proposed fund so that SEBI is not in any way incapacitated in undertaking investor protection activities. They further recommend that the fund should not be utilized for merely compensating the investors who suffer loss due to violation of security laws but also be utilized to educate the small investors as suggested by the Expert Group which would enable them in taking wise investment related decisions.

Demand No. 32

Major Head : 2052

Minor Head : 09.99

Detailed Head : 09.99.50

8. Information Technology – other charges

99. The expenditure under the Head Information Technology is meant for the procurement of IT items for DEA and expenditure for ongoing IT Plan involving Department of Economic Affairs, Department of Expenditure and Department of Revenue.

100. The budgetary allocations and actual expenditure for this head during the last four years is as below:-

(Non-plan)

Year	Budget Estimates	Revised Estimates	Actuals
2004-05	1,50,00,000	4,10,00,000	2,28,78,000
2005-06	5,95,00,000	10,79,00,000	4,33,91,000
2006-07	1,95,00,000	11,00,00,000	6,84,40,000*
2007-08	1,45,00,000		

* Provisional

101. Explaining the wide variation in estimates both at BE and RE stage and RE and actual during the year 2005-06, the Ministry stated as below:-

> "The provision was increased at RE 2005-06 stage as target set under IT Plan in 2005-06 was revised. However, due to procedural delay in finalizing the tender etc., the fund was partly utilized and the balance fund was surrendered at the end of the financial year."

102. Regarding reasons for drastically scaling down the provisions at BE stage in 2006-07 *vis-a-vis* actual expenditure in the previous year and again the sharp increase in RE stage in 2006-07, the Ministry furnished following reply:-

> "The target set for 2005-06 under IT Plan could not be achieved and the savings were surrendered at the end of the financial year and by that time BE 2006-07 was finalized. Hence provision was increased at RE 2006-07 stage to achieve the target under IT Plan."

103. It is seen that there has been wide variation between the budgetary estimates, revised estimates and actual expenditure under the head, 'Information Technology- other charges' since the year 2004-05. The Committee are dismayed over the fact that despite incurring an expenditure of only Rs. 2,28,78,000 in 2004-05, and proposing an allocation of Rs. 5,95,00,000 under the head at the stage of BE in 2005-06, the amount was increased substantially at the RE stage during the year but it could not be utilized due to procedural delays in finalization of tenders. Consequently, huge amounts had to be surrendered at the end of the year, 2005-06. What the Committee find to be even more surprising is that the same exercise was repeated in the following year 2006-07, where the total expenditure was only Rs. 6,84,40,000 as against the revised allocation of Rs. 11,00,00,000, which resulted in savings of around Rs. 5,00,00,000.

104. The Committee deprecate such a casual approach towards budgetary exercise and that too by a Ministry dealing in finances of the country as it is indicative of their inability to make realistic projections. The Committee would urge that the budgetary projections by the Ministry should be made more realistically in future. They are also unable to comprehend the reasons for the delay in implementing the IT plan for which the allocations are meant, which had the consequent effect of delaying the modernization of Departments of Economic Affairs, Expenditure and Revenue. The Committee, therefore, recommend that the Government should avoid procedural delays and should try to utilize the allocated funds in time.

Demand No. 32

Object Head: 2052

Minor Head: 00.090

Detailed Head: 09.01.27

9. Secretariat—Minor Works (Maintenance)

105. The expenditure under the head "Secretariat—Minor Works (Maintenance)" is meant for maintenance of A/C, Generator and machinery and their parts required form time to time for Budget Press, Department of Economic Affairs.

106. The allocations and actual expenditure under this head during the last three years is as follows:

(Non Plan)

Year	Budget Estimates	Revised Estimates	Actuals
2005-2006	25,00,000	20,00,000	3,55,000
2006-2007	25,00,000	35,00,000	30,00,000*
2007-2008	74,00,000	—-	—-

*provisional

107. When asked about the reasons for sharp variation between budgetary and revised estimates and actual expenditure during the year 2005-06, the Ministry stated as below:-

> "During the year 2005-06, the actual expenditure incurred was Rs. 19,68,265/- for maintenance of Air Condition and Generator of Budget Press and Administration section which has not been reflected due to misclassification."

108. On being asked about the reasons for substantial hike in budgetary estimate for this Head during the year 2006-07 as compared to actual expenditure in the previous year, the Ministry furnished following reply:

> "To purchase all essential spare parts of N-420 printing machine as certified by service engineer of authorized firm."

109. Regarding justification for steep increase in allocation at budgetary stage during the year 2007-08, the Ministry furnished the following reply:-

> "The allocation under this head during 2007-08 also includes expenditure in connection with repair/renovation/maintenance of the office premises through the CPWD. However while higher allocation has been made, the allocation under the head "Office Expenses" has been reduced simultaneously."

110. The Committee observe that the expenditure under the head 'Secretariat—Minor Works' is meant for maintenance of Air Conditioning system, Generator and Machinery and their parts. They find from the information furnished by the Ministry that the actual expenditure on this count has been shown to be much lower than the budgetary allocations as a sum of Rs. 19,68,265 spent for maintenance of Air conditioning system and Generator of the Budget Press and Administration section was misclassified and shown under some other head of account. They further find that budgetary provisions have been increased substantially in the year 2007-08 to meet additional anticipated expenditure on repair/renovation/ maintenance of the office premises and the allocation for the head, 'Office Expenses' reduced simultaneously.

111. The Committee are perturbed to note that the actual expenditure on 'Secretariat—Minor Works' has not been recorded under the current head of account and adjustments have been made under the head, 'Office Expenses' during the current year. The Committee emphasize on the need for ensuring that the allocations and expenditures are shown correctly, as otherwise, it would result in arriving at misleading conclusions.

Department of Expenditure

10. Achievement of FRBM Targets

112. The Fiscal Responsibility and Budget Management Act and the Rules made by the Government were brought into force on 5 July, 2004. The FRBM legislation covers rules relating to borrowings, deficit and debt. The centrepiece of this legislation is the Rule: government must refrain from borrowing for consumption: they should borrow only for prudent investment. Under the FRBM Act, Government has targeted to eliminate Revenue Deficit by 2008-09 in a steady manner by reducing revenue deficit at a minimum rate of 0.5% of GDP every year. Other targets set under the Act and Rules include bringing down the fiscal deficit by at least 0.3% of GDP every year, limiting accretion to stock of fiscal liabilities in any year by prescribed percentages of GDP and limiting accretion to stock of guarantees in any year to 0.5% of GDP. The reporting and disclosure requirements have also been enlarged under the Act to enhance fiscal transparency. FRBM represents a discipline and an institutional framework within which the Government has committed to pursue a prudent fiscal policy aimed at achieving sustained growth and inter-generational equity.

113. According to the statement on FRBM laid before Parliament, the last three years' results, particularly measured against the deficit targets, demonstrate the effectiveness of managing resources on the FRBMA compliant road map. The deficits have been contained within the mandated limits. There was a reduction in fiscal deficit from a level of 5.9 per cent of GDP in 2002-03 to 3.7 per cent of GDP in RE 2006-07. During the same period revenue deficit has declined from 4.4 per cent of GDP to 2.0 per cent of GDP.

114. The Task Force on implementation of Fiscal Responsibility and Budget Management Act, 2003 detailed the "expenditure assumptions underlying baseline versus reforms scenarios" as below:-

Expenditure assumptions underlying baseline versus reforms scenarios

	Baseline	Reforms
	1	2
Non-plan expenditure		
Interest payments	Weighted average interest rate of 8.25 per cent.	Unchanged

	1	2
Defence expenditure	Annual growth rate of 8.73 per cent after adjusting for the one-time additionality in 2004-05 for capital expenditure	To be marginally increased in 2005-06 and thereafter stabilized at 2.3 per cent of GDP.
Subsidies		
Food	Reduction of 5 per cent per year	Unchanged
Fertilizer	Annual growth rate of 5 per cent	Unchanged
Others	Petroleum subsidy to be phased out after 2006-07	Unchanged
Grants, loans to States, UTs	Annual growth rate of 6 per cent	Annual growth rate of 5.5 per cent. Pending finalisation of the details of the programme, a sum of Rs. 5,000 crore in 2006-07, Rs. 7,500 crore in 2007-08 and Rs. 10,000 crore in 2008-09 have been additionally provided for the Backward States Grant Commission under this Head.
Other non-plan exp.	Annual growth rate of 6 per cent	Annual growth rate of 5.5 per cent.
Plan expenditure	12.82 per cent increase per Annum	Accelerated annual growth rate of 15 percent after 2004-05.
Capital expenditure	To maintain the ratio of capital expenditure to total expenditure at the 2003-04 level	To steadily increase Capital expenditure so that in 2008-09, it is about 0.5 per cent of GDP higher than the baseline projection for 2008-09.

115. The Standing Committee on Finance had, in their report on Demands for Grants 2006-07, Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment), inter-alia observed/ recommended as under in regard to 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 efficacy in curtailing non-developmental expenditure".

116. On being asked whether the Government has been successful in achieving the fiscal correction targets with effect from 2006-07, and to state, on the basis of present financial position, whether the Government would be able to achieve the FRBM goals by 2008-09, the Government *inter-alia* submitted the following reply :-

"(1) The Government has been successful in resuming the process of fiscal correction with effect from 2006-07 and achieving the annual deficit targets as mandated under the FRBM Legislation. The Revenue and Fiscal Deficit as a percentage of GDP for the year 2006-07 as compared to 2005-06 are as follows:

	Actuals 2005-06	BE 2006-07	RE 2006-07
Revenue Deficit	2.6	2.1	2.0
Fiscal Deficit	4.1	3.8	3.7

In the Budget Estimates for 2007-08 the revenue deficit is estimated at 1.5 per cent of GDP (against 2.0 per cent in RE 2006-07) and fiscal deficit is estimated at 3.3 per cent of GDP (against 3.7 percent in RE 2006-07).

The Government is committed to be on course to achieve the FRBM mandated targets by 2008-09."

117. As per the Medium Term Fiscal Policy Statement laid before Parliament along with the 2007-08 Budget, the updated rolling targets for the fiscal indicators are as below:—

(As percentage of GDP)

		Revised Estimates 2006-07	Budget Estimates 2007-08	Targets for 2008-09	Targets for 2009-10
1.	Revenue Deficit	2.0	1.5	0.0	0.0
2.	Fiscal Deficit	3.7	3.3	3.0	3.0
3.	Gross Tax Revenue	11.4	11.8	12.3	12.7
4.	Total outstanding liabilities at the end of the year.	64.4	61.4	58.6	56.0

Notes:—

"GDP" is the Gross Domestic Product at current market prices.

"Total outstanding liabilities" include external public debt at current exchange rates. For projections, constant exchange rates have been assumed."

118. The Budget Estimates 2007-08 show a net increase in total expenditure of Rs. 98,884 crore over Revised Estimates. There is an increase of Rs. 66,514 crore in Non-Plan expenditure, which includes one time provision for payment to RBI towards transfer of its stake in State Bank of India. Under Plan expenditure, there is an increase of Rs. 32,370 crore, of which Rs. 28,429 crore is on Central Plan and Rs. 3,941 crore on Central Assistance for State and UT Plans. The main items of variation in Non-Plan and Plan estimates are given below:—

(In crores of Rupees)

	Revised 2006-07	Budget 2007-08	Variation Decrease(-)/ Increase(+)
	1	2	3
Non-Plan			
1. Capital Outlay	10806	49314	(+)38508
2. Interest Payments	146192	156495	(+) 10303

	1	2	3
3. Prepayment Premium for active debt consolidation	...	2500	(+) 2500
4. Defence Services	86000	96000	(+) 10000
5. Grants to States	35333	37541	(+) 2208
6. Food Subsidy	24204	25696	(+) 1492
7. Pensions	22225	23488	(+) 1263
8. Interest Subsidies	2805	2048	(-) 757
9. Lumpsum Provision for Schemes completed during Tenth Five Year Plan	...	100	(+) 100
10. Other Non-Plan Expenditure	81342	82239	(+) 897
Total (Non-Plan) Expenditure	**408907**	**475421**	**(+) 66514**
Plan			
1. Central Plan	126510	154939	(+) 28429
2. Central Assistance for State & UT Plans	46220	50161	(+) 3941
Total (Plan) Expenditure	**172730**	**205100**	**(+) 32370**

119. Non-Plan expenditure in 2007-08 (net of the SBI share acquisition) is estimated at Rs. 435,421 crore. The increase over 2006-07 is 6.5 per cent.

120. While tendering evidence in connection with the examination of Demands for Grants (2007-08), the Finance Secretary stated as under on issues relating to Plan and Non-Plan Expenditure:

> "The total expenditure increased in this Budget by about 20.7 per cent. The Plan expenditure increase has been 18.7 per cent over the previous year. The Non-Plan expenditure increase has been much less. It has been about 6.5 per cent if we exclude the purchase of the RBI stake in SBI. The gross fiscal deficit, as a percentage of GDP, has declined from 3.8 per cent to 3.3 per cent. The revenue deficit, as a percentage of GDP, has also declined from 2.1 per cent to 1.5 per cent. This is in keeping with the FRBM targets".

121.On being asked about the reform expenditure management initiatives of the Government specifically in regard to containing huge amounts paid as interest, the Government has *inter-alia* submitted the following:-

"Central Government recognizes that moderation in growth of interest payment expenditure is best obtained through a prudent fiscal policy limiting the annual fiscal deficit and sound monetary policy providing a benign interest rate regime. Within this framework the Government, in consultation with RBI – the debt manager, has been taking steps to reduce the carrying cost of debt by increasing recourse to market loans, phased discontinuation of schemes with administered rates of interests and improving liquidity in the secondary market. In this direction, it has also been decided to launch a scheme of active debt consolidation for which a provision of Rs. 2500 crore has been made in BE 2007-08."

122.In response to a specific query of the Committee raised with the representatives of Ministry of Finance, on whether the Government would be able to achieve the FRBM revenue deficit/reduction targets in view of the fact that the projected revenue deficit for 2007-08 was as much as Rs. 71,478 crore which is equivalent to 1.5% GDP, the Ministry of Finance, furnished *inter alia* the following as post evidence reply:—

"The Revenue Deficit for the current year *i.e.* 2007-08 has been estimated at Rs. 71,478 crore which is 1.5 per cent of Gross Domestic Product (GDP). The strategy for fiscal consolidation is essentially revenue led, with a focus on outcomes aimed at improving the allocative efficiencies of public expenditure. Buoyant revenue receipts supported by moderate growth in revenue expenditure is expected to contribute to achievement of the mandated fiscal targets."

123.In response to a question on whether it would be possible to eliminate revenue deficit by 2008-09, when the pace of reduction of the revenue deficit was 0.5 per cent every year, as per the FRBM Act/ regulations, the Ministry, *inter alia* furnished the following reply:—

"Rule 3(1) of the Fiscal Responsibility and Budget Management (FRBM) Rules, 2004, read with Section 4, sub-section 2(a) of the FRBM Act, 2003 specify the annual deficit reduction target. The relevant Rule is reproduced below:—

'3. Annual targets

(1) In order to achieve the target of revenue deficit as set out in sub-section (1) of section 4, by the 31st day of March, 2009, the

Central Government shall reduce such deficit by an amount equivalent to 0.5 per cent or more of the GDP at the end of each financial year, beginning with the financial year 2004-05.'

While the FRBM Rules envisage annual reduction of at least 0.5 per cent in Revenue Deficit, there is also scope for annual deficit reduction of more than 0.5 per cent of Gross Domestic Product (GDP). In BE 2006-07, Government had projected Revenue Deficit at 2.1 per cent of GDP, *i.e.,* 0.5 per cent lower than actuals of 2005-06. The Revenue Deficit estimates have shown improvement at 2.0 per cent of GDP at RE 2006-07. So far, the Government is on course in achieving annual deficit target and improvement has been possible due to high economic growth, increased revenues and prudent expenditure management."

124. As per the Report of the Task Force on Implementation of the Fiscal Responsibility and Budget Management Act, 2003, defence expenditure was expected to drop from 2.18% of GDP in 2003-04 to 1.9% of GDP in 2008-09 baseline scenario. The details of defence expenditure as percentage of GDP *vis-a-vis* the recommendations of the Task Force on implementation of the FRBM Act, as furnished by the Ministry of Finance are as follows:—

Defence Expenditure

(Rs. Crore)

Year	Amount	As % of GDP
2002-2003	55,662	2.26
2003-2004	60,066	2.17
2004-2005	75,856	2.43
2005-2006 (Prov. Accounts)	80,549	2.26
2006-2007(RE)	86,000	2.10
2007-2008(BE)	96,000	2.07

The baseline assumptions made by the Task Force in its Report were projected based on 'business as usual'. However, keeping in view the modernization of Defence Forces and capital requirements thereof, actual allocations towards 'Defence expenditure' are higher than the baseline assumptions of the Task Force.

125.The Budgeted outflow on account of Food, Fertiliser and Petroleum subsidies for the last five years (years-wise) as per the information furnished by Ministry of Finance (Department of Expenditure) is shown as below:-

(Rs. in crores.)

Major Subsidies	2002-03 (Act)	2003-04 (Act)	2004-05 (Act)	2005-06 (Act)	2006-07 (RE)	2007-08 (RE)
FOOD	24,176	25,181	25,798	23,077	24,204	25,696
FERTILIZER	11,015	11,847	15,879	18,460	22,452	22,451
Indigenous Urea	7,790	8,521	10,243	10,653	11,400	11,400
Imported Urea	0	0	494	1,211	2,704	2,704
De-controlled fertilizers	3,225	3,326	5,142	6,596	8,348	8,347
PETROLEUM PRODUCTS	5,225	6,351	2,956	2,683	2,785	2,840
Subsidy on LPG and PDS Kerosene	4,496	6,292	2,931	2,662	2,599	2,650
Freight subsidy	62	59	26	21	26	30
Other components	667	-	-	-	160	160
TOTAL	40,416	43,379	44,633	44,220	49,441	50,987

126. Asked to specify whether the Government's subsidy Bill was in consonance with the recommendations of the 'Task Force', which head suggested reducing the subsidy on LPG/Kerosene by one-third of the amount each year from 2003-04, the Ministry submitted as follows in reply:—

"Subsidy on PDS Kerosene and domestic LPG were to be initially phased out in three years. Accordingly full subsidy was given in 2002-03, which was reduced to the level of two third in 2003-04 and brought down further to the level of one third in 2004-05. Subsequently, Government decided to continue the subsidy for another two years *i.e.* till 2006-07. In line with this decision, the quantum of subsidy available in 2004-05 *i.e.* one third of full subsidy was continued during 2005-06 and 2006-07. The actual expenditure from the budget on account of domestic LPG and

PDS Kerosene during the last three years have been as under:—

(Rupees in Crore)

Year	Actual Expenditure from the Budget
2003-04	6292.00
2004-05	2931.00
2005-06	2662.00

2.0 In addition to above, Government provided "oil bonds" amounting to Rs. 11,500 Crore in 2005-06 as compensation for a part of "under recoveries" incurred by OMCs namely IOC, HPCL, BPCL and IBP on PDS kerosene and domestic LPG. For the year 2006-07, Rs. 24121 crore worth of oil bonds have been released to the OMCs towards "under recoveries" incurred by them on sensitive petroleum products including PDS Kerosene and domestic LPG.

3.0 Extending the subsidy beyond 2006-07 is also under active consideration of the Government."

127. Asked to furnish details of the Rs. 31,000 crore of special securities issued to the petroleum companies and the Food Corporation of India, and whether the companies would be in a position to recover this amount through profits. The Ministry, *inter-alia*, submitted the following in a post evidence reply:

"The following Special Securities were issued to the Oil Marketing Companies (OMCs) [Amount of Special securities issued – Rs. 24121 crore], during the financial year 2006-07, to compensate for under recoveries in respect of sensitive petroleum products:-

- 8.13% Special Bonds 2021 – Rs. 5000 crore issued on October 16, 2006.
- 7.75% Special Bonds 2021 – Rs. 5000 crore issued on November 28, 2006.
- 8.01% Special Bonds 2023 – Rs. 4150 crore issued on December 15, 2006.
- 8.20% Special Bonds 2024 – Rs. 5000 crore issued on February 12, 2007.
- 8.40% Special Bonds 2026 –Rs.4971 crore on March 29, 2007.

> The following Special Securities were issued to the Food Corporation of India (FCI) [Amount of Special securities issued – Rs. 16200 crore], during the financial year 2006-07, for clearing the outstanding dues of FCI for foodgrains supplied by it to the Department of Rural Development:—
>
> - 8.15% Special Bonds 2022 – Rs. 5000 crore issued on October 16, 2006.
> - 8.03% Special Bonds 2024 – Rs. 5000 crore issued on December 15, 2006
> - 8.23% Special Bonds 2027 – Rs. 6200 crore issued on February 12, 2007"

128. A written note furnished by Ministry of Planning regarding the issue of achieving the FRBM targets of eliminating revenue deficit by 2008-09 *inter alia* stated as below:

> "A special problem posed by the FRBM relates to the achievement of the revenue deficit targets specified in the central and also in various state legislations. These targets could prove difficult to achieve because the shift in Plan expenditure towards the social sectors has meant that a large proportion of the expenditure undertaken will be revenue expenditure as per the current budgetary definition. According to this, all grants by one tier of government to another, or to the private sector, are treated as revenue expenditures, irrespective of whether such expenditures create assets or not. In other words, we could face a situation where the fiscal deficit targets are met but the revenue deficit targets are not because of the high revenue component of Plan expenditure".
>
> "…These problems suggest that even if the fiscal deficit targets are met, it may not be easy for the Centre to cut the revenue deficit from 2.1% in 2006-07 to 0% by 2008-09 while also achieving large increases in Plan expenditure with a high revenue component."

129.The written note of Ministry of Planning further states as follow:

> "The only way of meeting the revenue deficit targets of the FRBM as they stand at present is to adjust the time-phasing of those programmes which are revenue-expenditure intensive. However, as this would include precisely the programmes focussing on social inclusiveness, it may not be easy to do unless non-plan revenue expenditure (mainly subsidies) is drastically cut."

130. Government has claimed that the projections of revenue and fiscal deficit reduction targets for the current year 2007-08, whereby the revenue and fiscal deficit are budgeted to be brought down from 2% (RE) to 1.5% of GDP and from 3.7% (RE) to 3.3% of the GDP respectively are in consonance with the FRBM road map, which envisages to eliminate revenue deficit and bring down fiscal deficit to level below 3% by 2008-09. While the deficit reduction targets projected may be in line with the FRBM road map unlike the year 2005-06, where the progress in this direction was 'paused', the rise in the non-plan expenditure of the Government is a matter of concern. Besides, the expenditure on defence, petroleum and fertilizer subsidies etc. is also not in consonance with the recommendations of the 'Task Force on Implementation of the FRBM'.

131. The non-plan expenditure of the Government for 2007-08, as pointed out by the Finance Secretary, amounts to a 6.5% increase over the previous year excluding the expenditure on purchase of RBI's stake in SBI. Moreover, the submission made before the Committee by the Planning Commission, *inter alia* reads, 'it may not be easy for the Government to cut the revenue deficit from 2.1% in 2006-07 to 0% by 2008-09 while also achieving large increases in Plan expenditure'. The Committee are, therefore, inclined to believe that adhering to the fiscal correction targets and measures stipulated under the FRBM Act would be an extremely difficult task for the Government. The Committee, therefore, while emphasizing on the need for ensuring that the deficit reduction targets are strictly adhere to, would also like to have a detailed note on the policy measures by way of which the FRBM goals are proposed to be achieved.

Department of Expenditure

Demand No.38
Major Head : 2052
Minor Head : 00.092
Detailed Head : 10.00.16

11. Publication

132. This Head is meant for booking the expenditure relating to printing of official publications. It includes expenditure on printing of office codes, manuals and other documents whether priced or unpriced. Provision under this Head has been kept for the Department of Expenditure (Headquarters), Controller General of Accounts and Central Pension Accounting Office.

133. The allocations under the Head along-with actual expenditure, during the period 2004-05 to 2007-08 are as follows:—

(in Rupees)

Non-Plan

Year	BE	RE	Actuals
2004-2005			16,90,000
2005-2006	22,00,000	19,80,000	13,58,000
2006-2007	22,00,000	21,50,000	13,72,000*
2007-2008	22,00,000		

*upto Feb. 2007

134. When asked about the reasons for variation between BE allocation and actuals in 2005-06, the Ministry of Finance (Department of Expenditure), *inter-alia* gave reply as below:—

"The main reason for variation between BE allocation and actuals in 2005-06 was less receipt of bills from the Government of India Press etc. than anticipated."

135. On being asked to furnish details of expenditure incurred in 2006-07 and also to furnish actual expenditure incurred under this Head, the Ministry of Finance (Department of Expenditure) furnished their reply as below:—

"The actuals upto February, 2007 are Rs. 13,72,000. This includes printing of Finance Accounts, Appropriation Accounts, Accounts at a Glance, Gradation List and printing charges for advertising posts etc in news papers."

136. When asked to justify the Budget outlay of Rs. 22,00,000 in 2007-08 under this Head, the Ministry of Finance (Department of Expenditure) *inter-alia*, made a written submission as below:—

> "The budgetary outlay for 2007-08 has been kept at the same level as that of BE 2006-07 which is considered adequate to meet the requirements of the department. This is also justified based on the current trend of expenditure."

137. The Committee observe that the actual expenditure under this Head has been short of the estimates during 2005-06 and 2006-07 by almost the same margin. The main reason for the variation between the BE allocation and actuals in 2005-06 as put forth by the Ministry, is the lesser than anticipated receipt of bills from the Government of India Press etc.

138. The Committee are not satisfied with the reply of the Government with regard to variation between the BE and Actuals in 2005-06. In the opinion of the Committee, application of rationality in preparing the estimates by the Government would have avoided the gross mismatch between Budget estimates and the actual expenditure. The Committee also feel pertinent to mention here that the similarity in the amount of shortfall in "actuals" as compared to the estimates under this head in 2005-06 and 2006-07, is indicative of the Government's casual approach towards budget allocations. The Committee are also surprised at the justification given by Government on proposing an allocation of Rs. 22,000,00 under this Head for 2007-08, on the basis of the "current trend" of expenditure as the actual expenditure under this Head for the last three years has been to the extent of Rs. 16,90,000 in 2004-05, Rs. 13,58,000 in 2005-06 and Rs. 13,72,000 in 2006-07. The Committee, therefore, would like to urge the Government to apply fiscal prudence and discipline when making allocations under this Head so as to eliminate the mismatch between the BEs and the Actuals in future.

Department of Disinvestment

12. Disinvestment Policy Document

139. The Committee on Finance have been repeatedly asking the Government to bring out a comprehensive Disinvestment Policy Document to be placed before the Parliament for approval. In their First Report on Demands for Grants (2004-05) of the Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment), the Committee had recommended as below:—

> "The Committee are seriously concerned that despite their repeated recommendations in their earlier reports on Demands for Grants in 2001-2002,2002-2003 and 2003-2004, urging the Government to bring out a comprehensive disinvestment policy document which should be laid before the Parliament for its approval, the Government neither complied with their recommendations nor did the Government give convincing reasons why the recommendations of the Committee were not implemented. The Committee regret to recall that in their reply in September, 2002 *vide* OM No. 45011/3/2000-Parl(Vol. II) dated 6.9.2002, the Government had made a request to the Committee to allow some more time to prepare and bring out a policy document which has not materialised till date. The Committee are deeply concerned that in the absence of a uniform Comprehensive Policy, disinvestment of PSUs is being done on case-to-case basis thus subjecting disinvestment programme vulnerable to public comments and apprehensions. The Committee strongly urge the Government to shun its case-to-case basis approach and adopt a cohesive and uniform approach so that the policy may gain more transparency and credibility.
>
> The Committee have been informed that the policy as stated in the NCMP is the policy of the Government towards disinvestment. 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."

140. The Committee had again reiterated their recommendation on the issue in their action taken report (Report No. 23) on Demands for Grants (2004-05) of the Ministry of Finance (Departments of economic Affairs, Expenditure and Disinvestment) 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."

141. During examination of Demands for Grants (2005-06) of the Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment), the Committee had recommended (Report No. 16) on the issue of Disinvestment Policy, as follows:

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

142. The Committee, in their action taken report (28th Report) on the recommendation contained in the 16th Report on Demands for Grants (2005-06) again reiterated on the same issue as below:—

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

143. Again, during examination of Demands for Grants (2006-07) of the Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment), the Committee had recommended (Report No. 36) as below:—

> "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".

144. In their Action Taken Report on Demands for Grants (2006-07) of Ministry of Finance (Deptts. Of Economic Affairs, Expenditure and Disinvestment), the Committee on the issue of Disinvestment Policy document/White Paper recommended (Report No. 45) as below:—

"The Committee note with dismay that instead of giving a credible and convincing reasoning for keeping on hold the proposal made for placing a 'White Paper on disinvestment of CPSEs' before Parliament, which was identified as one of the thrust areas for implementation, the reply merely states that the proposed 'White Paper' would be placed in the public domain after the review process of all disinvestment decisions and proposals is completed. It was mainly on the basis of assurance made for coming out with the 'White Paper on Disinvestment' that the Committee had, in their earlier reports on the Demands for Grants of the Ministry of Finance chosen to draw the attention of the Government to pursue the proposal by presenting the same to Parliament. From the response of the Government to this matter of crucial importance to the economy at large, the Committee can not help inferring that the disinvestments policy approach of the Government is marred with adhocism and lack of clarity. As informed to the Committee earlier, the White Paper 19 on disinvestment was to be tabled in the Monsoon Session of Parliament of the previous year, 2005-06. Though more than a year has passed since then, the policy document is yet to be prepared and placed in the public domain. The Committee once again emphasise on the need on the part of the Government to abide by the announcement made by tabling the White Paper, which may clearly spell out the disinvestment policy approach, goals and objectives"

145. In their action taken reply, the Government have informed that on 6th July, 2006, the Government decided to keep all disinvestments decisions and proposals on hold, pending further reviews. The White Paper on Disinvestment on CPSEs will be placed for information of Parliament after the review by the Government is completed.

146. On being asked about the factors that necessitated review of the Disinvestment Policy and to state as to by when the review was expected to be completed, the Government furnished their reply as below:—

> "The decision taken by the Government on 6th July, 2006 to keep all disinvestment decisions and proposals on hold, pending further review, was taken in the context of representations from some of the constituents and allies of United Progressive Alliance (UPA) expressing concerns about the process of disinvestment in some Public Sector Enterprises. The aforementioned review is yet to be completed. At present it is not possible to indicate any timeframe for completion of the said review".

147. On being asked to comment on the veracity of a news item in a National Daily (the Times of India, February 9, 2007) captioned "Govt. review sell off, left cries foul again" wherein it has been reported that the Government is considering to sell portions of Government's holding in Rural Electrification Corporation (REC), National Hydro-electric Power Corporation (NHPC) and Power Grid Corporation (PGC) and that the sell off is expected to raise Rs. 1,500 crore to fund social projects, the Government *inter-alia* furnished their reply as below:—

> "Three power companies, *viz.*, Rural Electrification Corporation Limited (REC), Power Grid Corporation of India Limited (PGCIL) and National Hydro-electric Power Corporation Limited (NHPC), propose to make public offerings of equity equal to 10% each of their pre-issue paid-up equity capital. Government has on 8th February, 2007 decided to piggy back with an 'Offer for Sale' of 10%, 5% and 5% respectively out of its shareholding".

148. With regard the utilization of the disinvestment proceeds expected from the disinvestments programme, the Ministry, *inter-alia*, furnished the following reply:—

> "Government has constituted a "National Investment Fund"(NIF) into which the proceeds from disinvestment of Government equity in select CPSEs would be channelised. In BE 2007-08 disinvestment

proceeds of Rs. 1651 crore on account of disinvestment of small portion of equity in REC, PGCIL and NHPC have been assumed. Provision for transfer of the same amount to NIF has been made. 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. The transactions have been so accounted as to make these deficit neutral. 75% of the annual income of NIF will be used to finance selected social sector schemes, which promote education, health and employment. An indicative list of schemes/projects which can benefit from resources realized through disinvestment process is as follows:—

(i) National Rural Health Mission.

(ii) Sarva Shiksha Abhiyan.

(iii) Mid Day Meal Scheme.

(iv) Drinking Water and Sanitation.

(v) Sampoorn Gramin Rojgar Yogana(SGRY).

(vi) National Food for Work Programme.

(vii) Integrated Child Development Scheme (ICDS).

(viii) Prime Minister's Gram Sarak Yojana (PMGSY).

The residual 25% of the annual income of NIF will be used to meet the capital investment requirements of profitable and revivable PSUs."

149. The Committee express their anguish over the fact that in spite of the assurance given and the reiteration of the Committee's recommendation for bringing out a policy document spelling out the disinvestment policy approach, goals and objectives, the Government has been unable to come out with the same till date. The Committee cannot understand as to why a clear policy on Disinvestment, which is of immense national importance *inter alia* in regard to aspects of utilizing disinvestment proceeds for funding social welfare projects and capital investment requirements of profitable and revivable PSUs is not being enunciated by the Government. The Committee are constrained to note that though a decision was taken on 6 July, 2006 to keep all disinvestment decisions and proposals on hold pending further review, the Government is unable to indicate any timeframe for completion of the said review. The Committee are also perturbed to note that despite the decision

to keep on hold all proposals and decisions relating to disinvestment, the Government has, on 8 February, 2007 proposed to back the "Offer of Sale" of 10%, 5% and 5% of shareholding by the three power companies, *viz*., Rural Electrification Corporation Limited (REC), Power Grid Corporation of India Limited (PGCIL), and National Hydro-electric Power Corporation Limited (NHPC) respectively.

150. The Committee would like to urge upon the Government to avoid the apparent ambiguous stance on Disnvestment of PSUs and refrain from resorting to ad-hocism in its policy approach. The Committee, therefore, once again, emphasize on the need for coming out with a comprehensive policy document on the Government's approach to disinvestment of public sector holdings.

Demand No. 44

Ministry of Finance (Department of Disinvestment)

Object Head: 63

Inter Account Transfer

151. This Head is meant for receipts on account of disinvestments of Government equity in Central Public Sector Enterprises (CPSEs).

In Rupees (Non-Plan)

Year	Budget Estimates	Revised Estimates	Actuals
2005-2006			000
2006-2007	38,40,00,00,000	1,00,000	000
2007-2008	00,000		

152. When asked why allocation was made under this Head in 2006-07 only, the Govt. *inter-alia* furnished their reply as below:—

> "The National Investment Fund (NIF) was constituted on 23rd November, 2005. Prior to formation of NIF, the amount realized from disinvestments in CPSEs was deposited in the Consolidated Fund of India. The BE for 2006-07 had been assumed at Rs. 38,40,00,00,000. This was based on the estimated receipts of disinvestment of 15% of the pre-issue paid up equity out of Government's shareholding in National Mineral Development Corporation Ltd. (NMDC) and 5% of the pre-issue paid up equity of Power Finance Corporation Ltd. (PFC) by piggy backing on the fresh issue of equity by the company. The estimated realization for NMDC, a listed company, was worked out on the basis of two weeks average price ended on 10.02.2006 and for PFC, which is an unlisted company, on the basis of book value as on 31.03.2005".

153. On being asked to state the reasons for the wide variation between the BE and RE in 2006-07, the Govt. *inter-alia* stated as below:—

> "On 6th July, 2006, Government decided to keep all disinvestment decisions and proposals on hold, pending further review which is yet to be completed. Meanwhile, PFC has completed an Initial Public Offering consisting a fresh issue of equity only, without any disinvestment of Government equity. The disinvestment of

Government's equity in NMDC continues to be on hold. Hence, a token provision of Rs. 1,00,000 has been made in RE 2006-07".

154. When asked to furnish the actual expenditure incurred under this Head in 2006-07, the Government *inter-alia*, furnished the following reply:—

"No disinvestments proceeds from disinvestments of Government equity in CPSEs have accrued after constitution of NIF. Hence, no expenditure has been incurred during 2006-07".

155. On being asked for the reasons for making no allocation in 2007-08, as shown in the Detailed Demands for Grants (2007-08), Ministry of Finance, the Ministry submitted the following reply:—

"In BE 2007-08, disinvestment proceeds of Rs. 1651 crore on account of disinvestment of small portions of equity in Rural Electrification Corporation(REC), Power Grid Corporation Ltd. (PGCIL) and National Hydro-Electric Corporation (NHPC) have been assumed. The estimated realization from disinvestment of Government equity in REC (10%), PGCIL (5%) and NHPC (5%) by piggy backing on the fresh issue of equity by REC, PGCIL & NHPC has been worked out on the basis of book value, as on 31.03.2006. These transactions are expected to be completed in 2007-08".

156. It is a matter of deep concern to the Committee that a huge amount of money has been allocated under the Head 'Inter Account Transfer' in 2006-07, whereas the actual expenditure under the Head was 'nil' at the close of the previous financial year. The Committee are further constrained to note that though no allocation has been shown under this Head in the Detailed Demands for Grants (2007-08) of Ministry of Finance, the Government, in a written reply stated that Rs. 1651 crore has been assumed in BE 2007-08 as 'disinvestment' proceeds. It appears to the Committee that the Government is proposing allocations randomly without proper and objective estimation. The Committee, therefore, reiterate the need for ensuring that the budgetary exercise is undertaken/allocations proposed on the basis of proper parameters so as to avoid gross miscalculations.

NEW DELHI;
26 *April*, 2007
6 *Vaisakha*, 1929 *(Saka)*

ANANTH KUMAR,
Chairman,
Standing Committee on Finance.

STATEMENT OF CONCLUSIONS/RECOMMENDATIONS OF THE STANDING COMMITTEE ON FINANCE IN THE FIFTY FIRST REPORT (2007-08)

Sl. No.	Para Nos.	Recommendations/Conclusions
1	2	3
1.	21, 22 & 23	The Committee observe that while the Wholesale Price Index (WPI) based inflation rose from 4 per cent in April, 2006 to 6.1 per cent in February, 2007, the inflation level as measured by the Consumer Price Index which peaked to as much as 7.6% in June, 2006, the highest in the last seven years, was placed at 6.7% in January, 2007. Though the inflation rate for primary articles and manufactured products at 9.76 per cent and 5.65 per cent respectively as on 20th January, 2007 was higher than 5.87 per cent and 2.32 per cent recorded in the corresponding week a year ago, the inflation rate for the fuel group decreased from 7.84 per cent to 3.67 per cent in the same period. Rise in prices of wheat, pulses, edible oils, fruits and vegetables, condiments and spices were the major contributory factors towards increasing the inflation rate of primary articles. The variation between the WPI and CPI measured inflation rate is owing to the different weightages and composition of commodities in the baskets of the two price indices. While the 'food group of items' have been given a weightage of 46.79% in the CPI basket, these items are accorded a weightage of 26.94% in the WPI basket. The CPI measured inflation in the current times being higher *vis-a-vis* the WPI measured inflation, which is owing to the rise in food

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		prices, the Committee cannot help taking note of the fact that the inflationary trend being witnessed affects the working class, or the lower strata of the society the most. The measures initiated and pursued by the Government to control inflation include *inter alia* reducing the retail prices of petrol, importing wheat and pulses at zero duty, banning export of wheat, pulses and skimmed milk powder, reducing import duty on palm group of oils and banning futures trading in tur, urad, wheat and rice. Concomitant to addressing the supply side factors, monetary policy initiatives for regulating liquidity by increasing the Cash Reserve Ratio and Repo rate have been initiated by the RBI with a view to controlling the inflationary trend and simultaneously facilitating the growth rate of GDP which has been to the extent of 7.5% (provisional estimates) for 2004-05 and 9.0 per cent (quick estimates) for 2005-06. The Committee, in this regard, take note of the fact that in the Economic Survey 2006-07 too an apprehension has been expressed that supply-demand imbalances in primary articles and firming of international prices may continue to exert pressure on inflation. It has, therefore been stated that unless supply side constraints, especially in food items are removed, the inflationary pressure would not be tamed fully. Since the primary factor in generating inflationary pressure is observed to be the increase in prices of food items, the Committee are of the view that the Government's policy direction should be essentially and seriously oriented towards addressing 'supply side' factors on a mid

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		and long term basis. The Committee feel this to be essential despite the initiatives taken by the Government for addressing supply side factors by resorting to imports etc., which can, at best be a short-term or stop gap arrangement for controlling prices. Moreover, rise in prices along with the rise in interest rates affect the common man hard. For the purpose of effectively tackling the inflationary trend, and at the same time maintaining the trajectory of growth, the Committee are of the considered view that the Government should emphasize on proactive steps so that the problem of inflation is tackled effectively. The Committee are of the view that strengthening the public distribution system as an instrument of intervention in the market, withdrawal of other essential commodities too from futures trading, and setting up a stabilization fund to address changes in international oil prices are some of the measures required to be taken for controlling inflation.
2.	38, 39, 40 & 41	The Committee observe that, in pursuance of the Budget announcement of 2006-07, the Government has been providing interest subvention of 2 percent for enabling banks to extend short term crop loans to farmers at 7 per cent rate of interest with an upper limit of Rs. 3 lakh on the loan amount. The interest subvention of 2 percent is made available to public sector banks, Regional Rural Banks and Cooperative Banks on the lending from their own resources; and Cooperative Banks and RRBs are refinanced at concessional rates on their borrowings from NABARD.
		Though the interest subvention scheme to the extent of 2 percent has been formulated

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		to enable short-term production credit to farmers at 7 percent interest rate, the Committee find this not to be adequate *vis-a-vis* the requirements of the farming community. For instance, the National Commission for Farmers headed by Dr. M. S. Swaminathan had recommended for reducing the interest rate on crop loans i.e. short term loans to 4 per cent. The representatives of the Ministry of Finance had, on the issue of extending cheaper short-term credit to the farming community, contended that the rate of interest applicable to the agricultural sector could not be looked into in isolation *vis-a-vis* other sectors such as micro-finance, where credit at higher interest rates was being effectively absorbed. The Committee are, however, not inclined to agree to this viewpoint, as agriculture has long remained starved of funds, which has the negative effect of incapacitating farmers in continuing with agricultural operations profitably. The Committee, therefore, desire that the suggestions of the National Commission on Farmers, which include *inter alia*, reducing the rate of interest on crop loans are acted upon so as to enable the farmers to access Institutional credit on large scale. The Committee further observe that long term loans for agriculture purposes are provided as investment credit for farm mechanization, irrigation equipment loans etc. and the rate of interest on such loans range between 10 percent to 14 percent per annum, which in their view is unviable. As long terms loans at high range of interest can deter farmers to go in for mechanization and technology infusion in a big way, the Committee recommend the

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		Government/RBI to initiate steps to further reduce the rate of interest on long term agricultural loans so as to make it an affordable proposition for farmers. The Committee note from the information furnished that banks as a whole have been able to achieve the targets set out under the 'package for doubling of credit flow to agriculture' during 2005-06. From the information made available, the Committee, however, cannot also, help noting that of the 27 public sector banks, only 10 banks could achieve the targeted level of extending 18% of the net bank credit to the agriculture sector. The shortfalls in meeting the agriculture lending targets is also reflected in the growing accruals to the RIDF on account of the compensatory deposits made by banks. The growing accruals to the RIDF is also indicative of the fact that the penal rate of interest payable on RIDF deposits has not served as an effective deterrent on banks from shying away from lending to the agricultural sector. The Committee, therefore, emphasise that the Government should make concerted efforts in impressing on banks to increase the agricultural credit disbursement. The Committee also express the need for ensuring that the yearly targets for agricultural lending are so designed that the banks are able to fulfil the obligation of achieving the target of extending 18 percent credit to the agriculture sector at the earliest. RBI should strictly monitor the performance of the banks in this regard.
3.	47, 48 & 49	The Committee note that despite incurring an expenditure of Rs. 10,676 crore from September, 1999 to March, 2006 on

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		computerization and development of communication network of public sector banks, only 10 of the 27 public sector banks are fully computerised as on date. Twelve of the public sector banks presently have more than 50 percent fully computerized branches, while in the case of rest of the five banks, less than 50 per cent branches have been fully computerized. On the specific issue of implementing Core Banking Solutions (CBS), which provide a host of benefits such as 'anywhere banking', the Committee note from the information furnished that the public sector banks initiated the implementation of CBS in the year 2004-05 and it will take another four years to complete the process. As on March 31, 2006, 28.9 percent of branches of public sector banks were providing CBS. The Committee are concerned to find that the public sector banks have lagged behind their private and foreign counterparts in implementing modern technology despite incurring a huge expenditure of Rs. 10,676 crore in the preceding few years. Since the process of implementing CBS was initiated by the public sector banks as late as in 2004-05, one would have expected them to pick up pace in this regard in order to catch up with the private sector and foreign banks. However, the Committee are perturbed to note that this has not happened. The reasons advanced for the slow and tardy progress of implementation of the modernization plans by public sector banks, as informed, include *inter-alia* problems relating to acquisition of hardware, software and networking equipments, non availability of service

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		providers and skilled manpower, as well as 'legacy issues' of branches/offices working on different technological platforms. The Committee are utterly displeased to note tardy progress so far made by the public sector banks towards modernization. They, therefore, recommend that appropriate measures be taken for implementation of modern technology in public sector banks at a faster pace. The Committee also express the need on the part of RBI to impress upon the banks to complete the transformation towards CBS at the earliest. The Government/RBI must provide assistance to the banks in addressing problems relating to computer hardware and software, networking equipments, skilled manpower etc., which are said to be hindering the progress of modernization of the public sector banking practices and processes.
4.	58 & 59	Though scheduled commercial banks are required to extend a minimum of 10 percent of the Net Banking Credit to the weaker sections as a part of the overall target of extending 40 percent of the credit to priority sector, the data for the last four years shows that the actual lending has been much lower, both in the case of public sector and private sector banks. While the public sector banks extended 7.67 and 7.70 percent of the Net Banking Credit to the weaker sections in 2004-05 and 2005-06, such lending extended by the private sector banks was as low as 1.2 percent and 1.7 percent during the years. The principal reasons cited for non-compliance of the lending targets for the weaker sections include, *inter alia*, delay in submission of forms by sponsoring agencies, lack of

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		awareness of guidelines of schemes among officials of both sponsoring agencies and banks, poor sponsoring of applications, poor recovery and defaults by borrowers. The Committee are surprised at the satisfaction being derived by the Government that the lending to the weaker sections of society has been steadily increasing in absolute terms since 2002-03. Government should not lose sight of the fact that the lending to this section in terms of percentage of net bank credit has no where been near the stipulated 10 percent. The Committee, therefore, recommend that the Government/RBI should take appropriate steps for increasing awareness and enabling effective co-ordination between banks and sponsoring agencies so that timely credit is made available to the borrowers. The banks also need to be impressed upon to promote awareness among the weaker sections about the availability of credit. The Committee would also like to be apprised of the details of the interest charged on the loan-schemes to the poor sections as well as the data on recoveries of such loans.
5.	70, 71, 72 & 73	The National Agricultural Insurance Scheme (NAIS), implemented by the Agricultural Insurance Company of India Limited (AIC), since Rabi 1999-2000 is the principal scheme presently in operation for administration of crop insurance. The scheme is being implemented on 'Area approach' with the block/tehsil taken as a 'unit area' and claims settled on the basis of yield data received from the State Governments on the basis of conduct of requisite number of crop cutting experiments. While loanee farmers are compulsorily covered under the scheme

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		with the Government providing a 10 per cent subsidy on the premium amounts, the scheme is voluntary for non-loanee farmers. It is seen from the information furnished that in Kharif 2004, 12687046 farmers were covered under the scheme, of whom 1222455 loanee farmers were benefited. In Kharif 2005 a total of 12674080 farmers subscribed to the scheme and 1234263 loanee farmers were benefited. Further, while 35,31045 and 4048524 loanee farmers subscribed to this scheme in Rabi 2004-05 and Rabi 2005-06 respectively, the number of beneficiaries were 563141 and 590283 farmers in the two consecutive cropping seasons.
		The Committee observe that a Joint Group of the Ministry of Agriculture, set up to study the improvements required in the crop insurance schemes which submitted its report in December, 2004 had *inter alia* recommended that the village Panchayat be taken as the unit of insurance for major crops; covering selected pre-sowing and post harvest losses, fixing indemnity levels at 90 per cent in low risk areas/crops and 80 per cent for others, and extending insurance coverage to perennial horticultural and vegetable crops and damage caused by wild animals on individual basis. In a similar vein, the Standing Committee on Finance had in their report on Credit Flow to Agriculture and Crop Insurance Scheme presented in 2004-05 recommended that the unit area or area approach of insurance coverage be standardized and fixed as the Gram Panchayat for the whole of the country. In their action taken note on the recommendation of the Committee, the

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		Ministry of Finance had agreed with the view that reduction in the unit area of insurance would help in 'more realistic assessment of claims'. A representative of the Ministry too informed *inter alia* that the intention of the Government was also to reduce the unit area of insurance from the block to Gram panchayat level. The Committee note that while the Government agrees that reducing the unit area of insurance to the village panchayat would enable in realistic and objective assessment of claims, the avowed hindrance in this regard is the additional expenditure and manpower requirements for the crop cutting experiments. The fact however remains that the expert groups set up by the Government too had recommended that the unit area for the crop insurance coverage needs to be reduced for enabling realistic assessment of claims. As recommended in their earlier report of 2004-05, the Committee, therefore, reiterate the need for standardizing and fixing the unit area of insurance coverage as 'Gram Panchayat'. The Committee are further surprised to note that the report of the Joint Group, which was submitted as far back as in December, 2004 is still being considered. As agreed to by the representatives of Ministry while tendering evidence, the Committee desire that the Ministry of Finance should come out with a Status paper on crop insurance scheme within a period of three months specifying the extra trained manpower and extra funding which are required for undertaking additional crop cutting experiments as a result of reducing the unit of insurance to the village panchayat level.

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		The Committee further note that the Agricultural Insurance Company has launched a 'weather based insurance scheme', namely the Varsha Bima Yojana for specific crops whose yields are largely co-related to rainfall. The Committee, however, find that the premium rate under the scheme which ranges from 6 to 9 per cent is quite high. The Government too have in their written submission agreed that there was a 'need to keep the premium rate affordable by subsidizing the scheme'. The Committee, therefore, recommend that the Government needs to subsidise the premium under the scheme so that a large number of farmers can avail the scheme.
6.	87, 88 & 89	The Committee are dismayed to note that between July 2005 to June 2006 the Reserve Bank of India received 5772 complaints against public sector banks. The total number of complaints against private sector banks was 1492 whereas in case of foreign banks it was 879. They find that whereas the number of complaints received through Banking Division decreased consecutively during the last three years i.e. 2004, 2005, 2006, the number of complaints directly received by banks increased sharply during the same period. Out of the total complaints, maximum number of complaints have been registered against credit card related service of the banks. They note with utmost concern the fact that the RBI has received representations from the public about unreasonable and non-transparent service charges/hidden charges being levied by banks, especially with respect to non maintenance of minimum balance in account, delayed payment on

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		credit card dues, remittance charges, ATM/ Debit card fees etc. The Committee find that the RBI has created a separate Customer Service Department in July 2006 to give focused attention to customer service in banks. The Banking Ombudsman Scheme has been revised with effect from January 1, 2006 to include additional complaints. RBI has also issued guidelines on credit card operations on 21st November, 2005. In order to ensure fair practices in banking services, RBI in its Annual Policy Statement for the year 2006-07 proposed to make display and updation of details of various service charges obligatory for the banks. It has also proposed to constitute a Working Group comprising of Indian Banks' Association (IBA) and representatives of customers to formulate a scheme for ensuring reasonableness of bank charges and to incorporate the same in the Fair Practice Code, the compliance of which would be monitored by the Banking Codes and Standards Board of India (BCSBI). They also find that based on the recommendations of the Working Group, guidelines on credit card operations of banks have been issued in the form of a Master Circular on credit card operations on July 1, 2006. Though the measures taken by RBI are a step towards right direction, a lot depends on the implementation. The Committee are of the view that RBI should play a more proactive role in reducing the incidence of customer grievances in the first instance. In view of the largest number of complaints being in respect of credit card services, RBI should have a study conducted of these

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		services in particular with a view to identify and plug the lacunae in these services. The RBI should also institute a monitoring mechanism to see that all the guidelines issued are scrupulously observed by individual banks. There should be a penal provision against banks for taking negligent attitude towards customer grievances. The number of customer complaints should be gradually reduced by taking appropriate measures to improve the particular service of banks. The Committee would also like to be apprised of the progress in this regard within the next three months.
7.	96, 97 & 98	The Committee are concerned to note that Investor Protection Fund under the aegis of SEBI was proposed to be created as far back as Budget 2006-07 but the proposed fund has not been created so far. The proposed fund was to be created with the sums collected by SEBI by way of fines and penalties. At present these proceeds are credited to the Consolidated Fund of India as required under the Securities Law. They further observe that for creation of Investor Protection Fund, SEBI Act needs to be amended so that all proceeds collected by way of penalties, settlement of proceedings and compounding of offences under the SEBI Act, the Securities Contract (Regulation) Act and the Depositories Act could be credited to the Investor Protection Fund.
		The Committee also notice that an Expert Group was set up under Shri G.N. Bajpai to suggest measures for protection of Interests of small investors and new avenues for safe investment of their

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		savings. The Expert Group has suggested for creation of a centralized investor education effort with adequate funding. The Committee therefore recommend that the Government should bring the legislative amendments required to create a centralized investor protection fund with SEBI without further delay. The Committee also desire that the issue of adequacy of funds to enable SEBI to undertake the investor protection and education activities in a big way should be addressed by the Government. The Committee therefore, reiterate the need to impress on the Government to ensure that adequate capital is available in the proposed fund so that SEBI is not in any way incapacitated in undertaking investor protection activities. They further recommend that the fund should not be utilized for merely compensating the investors who suffer loss due to violation of security laws but also be utilized to educate the small investors as suggested by the Expert Group which would enable them in taking wise investment related decisions.
8.	103 & 104	It is seen that there has been wide variation between the budgetary estimates, revised estimates and actual expenditure under the head, 'Information Technology- other charges' since the year 2004-05. The Committee are dismayed over the fact that despite incurring an expenditure of only Rs. 2,28,78,000 in 2004-05, and proposing an allocation of Rs. 5,95,00,000 under the head at the stage of BE in 2005-06, the amount was increased substantially at the RE stage during the year but it could not be utilized due to procedural delays in finalization of tenders. Consequently, huge amounts had to be surrendered at the end of the year, 2005-06. What the Committee find to be

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		even more surprising is that the same exercise was repeated in the following year 2006-07, where the total expenditure was only Rs. 6,84,40,000 as against the revised allocation of Rs. 11,00,00,000, which resulted in savings of around Rs. 5,00,00,000. The Committee deprecate such a casual approach towards budgetary exercise and that too by a Ministry dealing in finances of the country as it is indicative of their inability to make realistic projections. The Committee would urge that the budgetary projections by the Ministry should be made more realistically in future. They are also unable to comprehend the reasons for the delay in implementing the IT plan for which the allocations are meant, which had the consequent effect of delaying the modernization of Departments of Economic Affairs, Expenditure and Revenue. The Committee, therefore, recommend that the Government should avoid procedural delays and should try to utilize the allocated funds in time.
9.	110 & 111	The Committee observe that the expenditure under the head 'Secretariat—Minor Works' is meant for maintenance of Air Conditioning system, Generator and Machinery and their parts. They find from the information furnished by the Ministry that the actual expenditure on this count has been shown to be much lower than the budgetary allocations as a sum of Rs. 19,68,265 spent for maintenance of Air conditioning system and Generator of the Budget Press and Administration section was misclassified and shown under some other head of account. They further find that budgetary provisions have been increased substantially in the year 2007-08 to meet additional anticipated expenditure

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		on repair/renovation/maintenance of the office premises and the allocation for the head, 'Office Expenses' reduced simultaneously. The Committee are perturbed to note that the actual expenditure on 'Secretariat—Minor Works' has not been recorded under the current head of account and adjustments have been made under the head, 'Office Expenses' during the current year. The Committee emphasize on the need for ensuring that the allocations and expenditures are shown correctly, as otherwise, it would result in arriving at misleading conclusions.
10.	130&131	Government has claimed that the projections of revenue and fiscal deficit reduction targets for the current year 2007-08, whereby the revenue and fiscal deficit are budgeted to be brought down from 2% (RE) to 1.5% of GDP and from 3.7% (RE) to 3.3% of the GDP respectively are in consonance with the FRBM road map, which envisages to eliminate revenue deficit and bring down fiscal deficit to level below 3% by 2008-09. While the deficit reduction targets projected may be in line with the FRBM road map unlike the year 2005-06, where the progress in this direction was 'paused', the rise in the non-plan expenditure of the Government is a matter of concern. Besides, the expenditure on defence, petroleum and fertilizer subsidies etc. is also not in consonance with the recommendations of the 'Task Force on Implementation of the FRBM'. The non-plan expenditure of the Government for 2007-08, as pointed out by the Finance Secretary, amounts to a 6.5% increase over the previous year excluding

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		the expenditure on purchase of RBI's stake in SBI. Moreover, the submission made before the Committee by the Planning Commission, *inter alia* reads, 'it may not be easy for the Government to cut the revenue deficit from 2.1% in 2006-07 to 0% by 2008-09 while also achieving large increases in Plan expenditure'. The Committee are, therefore, inclined to believe that adhering to the fiscal correction targets and measures stipulated under the FRBM Act would be an extremely difficult task for the Government. The Committee, therefore, while emphasizing on the need for ensuring that the deficit reduction targets are strictly adhere to, would also like to have a detailed note on the policy measures by way of which the FRBM goals are proposed to be achieved.
11.	137&138	The Committee observe that the actual expenditure under this Head has been short of the estimates during 2005-06 and 2006-07 by almost the same margin. The main reason for the variation between the BE allocation and actuals in 2005-06 as put forth by the Ministry, is the lesser than anticipated receipt of bills from the Government of India Press etc. The Committee are not satisfied with the reply of the Government with regard to variation between the BE and Actuals in 2005-06. In the opinion of the Committee, application of rationality in preparing the estimates by the Government would have avoided the gross mismatch between Budget estimates and the actual expenditure. The Committee also feel pertinent to mention here that the similarity in the amount of shortfall in "actuals" as compared to the estimates under this head

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		in 2005-06 and 2006-07, is indicative of the Government's casual approach towards budget allocations. The Committee are also surprised at the justification given by Government on proposing an allocation of Rs. 22,000,00 under this Head for 2007-08, on the basis of the "current trend" of expenditure as the actual expenditure under this Head for the last three years has been to the extent of Rs. 16,90,000 in 2004-05, Rs. 13,58,000 in 2005-06 and Rs. 13,72,000 in 2006-07. The Committee, therefore, would like to urge the Government to apply fiscal prudence and discipline when making allocations under this Head so as to eliminate the mismatch between the BEs and the Actuals in future.
12.	149&150	The Committee express their anguish over the fact that in spite of the assurance given and the reiteration of the Committee's recommendation for bringing out a policy document spelling out the disinvestment policy approach, goals and objectives, the Government has been unable to come out with the same till date. The Committee cannot understand as to why a clear policy on Disinvestment, which is of immense national importance *inter alia* in regard to aspects of utilizing disinvestment proceeds for funding social welfare projects and capital investment requirements of profitable and revivable PSUs is not being enunciated by the Government. The Committee are constrained to note that though a decision was taken on 6 July, 2006 to keep all disinvestment decisions and proposals on hold pending further review, the Government is unable to indicate any timeframe for completion of the said review. The Committee are also perturbed to note that despite the decision to keep

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		on hold all proposals and decisions relating to disinvestment, the Government has, on 8 February, 2007 proposed to back the "Offer of Sale" of 10%, 5% and 5% of shareholding by the three power companies, *viz*., Rural Electrification Corporation Limited (REC), Power Grid Corporation of India Limited (PGCIL), and National Hydro-electric Power Corporation Limited (NHPC) respectively. The Committee would like to urge upon the Government to avoid the apparent ambiguous stance on Disnvestment of PSUs and refrain from resorting to ad-hocism in its policy approach. The Committee, therefore, once again, emphasize on the need for coming out with a comprehensive policy document on the Government's approach to disinvestment of public sector holdings.
13.	156	It is a matter of deep concern to the Committee that a huge amount of money has been allocated under the Head 'Inter Account Transfer' in 2006-07, whereas the actual expenditure under the Head was 'nil' at the close of the previous financial year. The Committee are further constrained to note that though no allocation has been shown under this Head in the Detailed Demands for Grants (2007-08) of Ministry of Finance, the Government, in a written reply stated that Rs. 1651 crore has been assumed in BE 2007-08 as 'disinvestment' proceeds. It appears to the Committee that the Government is proposing allocations randomly without proper and objective estimation. The Committee, therefore, reiterate the need for ensuring that the budgetary exercise is undertaken/ allocations proposed on the basis of proper parameters so as to avoid gross miscalculations.

APPENDIX

MINUTES OF THE NINETEENTH SITTING OF STANDING COMMITTEE ON FINANCE

The Committee sat on Monday, 2 April, 2007 from 1100 hours to 1400 hours and 1500 to 1830 hours.

PRESENT

Shri Ananth Kumar — *Chairman*

MEMBERS

Lok Sabha

2. Shri Jaswant Singh Bishnoi
3. Shri Gurudas Dasgupta
4. Shri A. Krishnaswamy
5. Dr. Rajesh Kumar Mishra
6. Shri Madhusudan Mistry
7. Shri Rupchand Pal
8. Shri P.S. Gadhavi
9. Shri R. Prabhu
10. Shri K.S. Rao
11. Shri Jyotiraditya Madhavrao Scindia
12. Shri A.R. Shaheen
13. Shri G.M. Siddeshwara
14. Shri M.A. Kharabela Swain

Rajya Sabha

15. Shri Santosh Bagrodia
16. Shri Yashwant Sinha
17. Shri Mangani Lal Mandal
18. Shri C. Ramachandraiah
19. Shri Vijay J. Darda
20. Shri S. Anbalagan

SECRETARIAT

1. Shri P.K. Grover — *Joint Secretary*
2. Shri S.B. Arora — *Deputy Secretary*
3. Shri T.G. Chandrasekhar — *Deputy Secretary*
4. Shri M.L.K. Raja — *Under Seretary*

PART-I

(1100 to 1400 hours)

2. *** *** ***

3. *** *** ***

4. *** *** ***

The witnesses then withdrew.

PART-II

(1500 to 1830 hours)

WITNESSES

6. Ministry of Finance

Department of Economic Affairs

1. Shri A.K. Jha, Finance Secretary
2. Shri Vinod Rai, Secretary-Financial Sector
3. Ms. Sindhushree khullar, Additional secretary
4. Shri A.K. Lahiri—Chief Economic Advisor
5. Shri Amitabh Verma, Joint Secretary (Banking)
6. Shri Rakesh Singh, Joint Secretary (Banking)
7. Smt. L.M. Vas, Joint Secretary, Budget Division
8. Shri G.C. Chaturvedi, Joint Secretary, Insurance Division
9. Shri Arvind Mayaram, Joint Secretary, Infra & IT Manager
10. Dr. K.P. Krishnan, Joint Secretary, CM & CVO
11. Dr. Anoop K. Punjabi, Joint Secretary (FT)
12. Shri Kumar Sanjay Krishna—Joint Secretary (BC)
13. Shri M. Deena Dayalan—FA (F)
14. Dr. H.A.C. Prasad, Sr. Eco. Adviser
15. Shri P.P. Mitra, Economic Adviser, Banking & Insurance Division
16. Shri M.C. Singhi, Economic Adviser

Department of Expenditure

1. Dr. Sanjeev Mishra, Secretary
2. Ms. Rita Menon—Additional Secretary

3. Shri V.S. Senthil, Joint Secretary (PF-I)
4. Shri B.S. Bhullar, Joint Secretary (PF-II)
5. Ms. Meena Aggarwal-Joint Secretary (Per.)
6. Shri G.P. Gupta, Chief Controller of Accounts (Finance)
7. Shri U.S. Pant, Chief Controller of pension
8. Shri Shankar Bannerjee, CAA&A
9. Ms. Mamta Kundra, Principal Director (Staff), C&AG of India
10. Shri S.C. Pandey, OSD, Department of Expenditure
11. Shri P.R. Devi Prasad, OSD (FRBM)

Department of Disinvestment

1. Shri P.V. Bhide, Secretary
2. Shri M. Deena Dayalan, Joint Secretary & Financial Adviser
3. Shri Saurabh Chandra, Joint Secretary
4. Smt. Meenakshi Gose, Joint Secretary
5. Smt. Kalpana Mittal Baruah, Joint Secretary

NABARD

Dr. K.G. Karmakar, MD

7. 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.

8. The Committee then took oral evidence of representatives of the Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment) on Demands for Grants (2007-08) and other related matters. The points discussed during the meeting broadly relate to issues such as utilization of foreign exchange reserves, rate of interest on agricultural credit, inflation, crop insurance, education cess, small savings, asset reconstruciton companies, hypervolatility in stock market, lending to weaker sections by banks etc.

9. Thereafter, the Chairman requested the representatives of Ministry of Finance (Department of Revenue) to furnish notes on certain points raised by the Members to which replies were not readily available with them during the discussion.

10. A verbatim record of proceedings has been kept.

The witnesses then withdrew.

(The Committee then adjourned to meet again on 3 April, 2007 at 1100 hrs.)

MINUTES OF THE TWENTY-FIRST SITTING OF STANDING COMMITTEE ON FINANCE

The Committee sat on Tuesday, 17th April, 2007 from 1100 to 1400 hours, 1430 to 1550 hours.

PRESENT

Shri Ananth Kumar — *Chairman*

MEMBERS

Lok Sabha

2. Shri Jaswant Singh Bishnoi
3. Shri Vijoy Krishna
4. Shri Bhartruhari Mahtab
5. Shri Rupchand Pal
6. Shri P.S. Gadhavi
7. Shri R. Prabhu
8. Shri K.S. Rao
9. Shri Jyotiraditya Madhavrao Scindia
10. Shri A.R. Shaheen
11. Shri M.A. Karabela Swain

Rajya Sabha

12. Shri Santosh Bagrodia
13. Shri Raashid Alvi
14. Shri Yahswant Sinha
15. Shri Mahendra Mohan
16. Shri S. Anbalagan

SECRETARY

1. Dr. (Smt.) P.K. Sandhu — *Additional Secretary*
2. Shri P.K. Grover — *Joint Secretary*
3. Shri T.G. Chandrasekhar — *Deputy Secretary*
4. Shri M.L.K. Raja — *Under Secretary*

PART I

(1100 to 1400 hours)

WITNESSES

Department of Economic Affairs

1. Shri Vinod Rai, Secretary—Financial Sector
2. Smt. Sindhushree Khullar, Additional Secretary (EA)
3. Dr. Ashok K. Lahiri, Chief Economic Advisor
4. Shri Amitabh Verma, Joint Secretary (Banking)
5. Ms. L.M. Vas, Joint Secretary
6. Shri G.C. Chaturvedi, Joint Secretary, Insurance Division
7. Shri Arvind Mayaram, Joint Secretary (Infrastructure)
8. Dr. Anup K. Pujari, Joint Secretary (FT)
9. Shri Shankar Banerjee, CAA&A

Department of Revenue

1. K.M. Chandrasekhar, Revenue Secretary

Revenue Headquarters

2. Shri K. Mohandas, Additional Secretary (Revenue)
3. Shri L.K. Gupta, Joint Secretary (State Taxes)

CBEC

4. Shri V.P. Singh, Chairman (EC)
5. Shri Devnedra Dutt, Member (Customs)
6. Shri P.C. Jha, Member (CX/ST)
7. Shri A.K. Raha, Member (L&J)/Comp.)
8. Shri R. Sekar, Joint Secretary (TRU-II)

CBDT

9. Smt. Indira Bhargava, Chairperson
10. Shri A.J. Majumdar, Member (L&C)
11. Smt. Anita Kapur, Joint Secretary (TPL-I)
12. Shri Arbind Modi, Joint Secretary (TPL-II)
13. Smt. Poonam Dutt, Joint Secretary (FT&TR-II)

IFU

14. Shri M. Deena Dayalan, Joint Secretary & FA (F)

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

3. The Committee then took further oral evidence of the representatives of the Ministry of Finance (Departments of Economic Affairs and Revenue) on Demands for Grants (2007-08) and other related matters. The points discussed during the meeting broadly related to issues such as FRBM targets, Special Economic Zones (SEZs), Double Taxation Avoidance Agreements (DTAA), Widening of Tax Base and Evasion of Tax, Tax Exemptions, Rate of interest on crop loans, crop insurance scheme, inflation, investment of public sector banks and insurance companies in stock market, foreign exchange rate etc.

4. Thereafter, the Chairman directed the representatives of Ministry of Finance (Departments of Economic Affairs and Revenue) to furnish notes on certain points raised by the Members to which replies were not readily available with them during the discusion on or before 19 April, 2007.

5. A verbatim record of proceedings has been kept.

The witnesses then withdrew.

PART II

(1430 to 1550 hrs.)

6. *** *** ***

7. *** *** ***

8. *** *** ***

9. *** *** ***

The witnesses then withdrew.

The Committee then adjourned.

MINUTES OF THE TWENTY-SECOND SITTING OF THE STANDING COMMITTEE ON FINANCE

The Committee sat on Thursday, 26 April, 2007 from 1330 to 1630 hrs.

PRESENT

Shri Ananth Kumar — *Chairman*

MEMBERS

Lok Sabha

2. Shri Rupchand Pal
3. Shri R. Prabhu
4. Shri K.S. Rao
5. Shri Magunta Sreenivasulu Reddy
6. Shri A.R. Shaheen
7. Shri M.A. Kharabela Swain

Rajya Sabha

8. Shri Santosh Bagrodia
9. Shri C. Ramchandraiah
10. Shri Vijay J. Darda
11. Shri S. Anbalagan

SECRETARIAT

1. Dr. (Smt.) P.K. Sandhu — *Additional Secretary*
2. Shri P.K. Grover — *Joint Secretary*
3. Shri S.B. Arora — *Deputy Secretary*
4. Shri T.G. Chandrasekhar — *Deputy Secretary*
5. Shri M.L.K. Raja — *Under Secretary*

PART I

(1330 to 1500 hours)

Discussion with Delegation from Indonesia

2. *** *** ***

3. *** *** ***

4. *** *** ***

PART II

(1515 to 1630 hours)

Consideration and Adoption of Draft Reports on Demands for Grants (2007-08)

5. The Committee first took up for consideration the draft report on Demands for Grants (2007-08) of the Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment) and adopted the same with the modifications/amendments as shown in *Annexure I*.

6. *** *** ***

7. *** *** ***

8. *** *** ***

9. *** *** ***

10. The Committee authorized the Chairman to finalise the Reports in the light of suggestions received from the Members and also make consequential verbal changes arising out of factual verification by the concerned Ministries/Departments and present the same to Parliament.

The Committee then adjourned.

ANNEXURE I

[MODIFICATIONS/AMENDMENTS MADE BY STANDING COMMITTEE ON FINANCE IN THEIR DRAFT REPORT ON DEMANDS FOR GRANTS (2007-08) OF THE MINISTRY OF FINANCE (DEPARTMENTS OF ECONOMIC AFFAIRS, EXPENDITURE AND DISINVESTMENT) AT THEIR SITITNG HELD ON 26 APRIL, 2007]

Page No. 13, Para No. 23, Last Line

After 'is tackled effectively.'

Insert 'The Committee are of the view that strengthening the public distribution system as an instrument of intervention in the market, withdrawal of other essential commodities too form futures trading, and setting up a stabilization fund to address changes in international oil prices are some of the measures required to be taken for controlling inflation.

Page No. 43, Para No. 72, Line 14

After 'on crop insurance scheme'

Insert 'within a period of three months'

Page No. 52, Para No. 89, Last Line

After 'in this regard'

Insert 'within the next three months'.