SEVENTY-THIRD REPORT

STANDING COMMITTEE ON FINANCE (2008-09)

(FOURTEENTH LOK SABHA)

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

DEMANDS FOR GRANTS (2008-09)

[Action Taken by the Government on the Recommendations contained in the Sixty-seventh Report of the Standing Committee on Finance on Demands for Grants (2008-09) of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment)]

Presented to Lok Sabha on 18 December, 2008

Laid in Rajya Sabha on 18 December, 2008

LOK SABHA SECRETARIAT

NEW DELHI

December, 2008/Agrahayana, 1930 (Saka)

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COMPOSITION OF THE STANDING COMMITTEE ON FINANCE (2008-2009)

Shri Ananth Kumar—*Chairman*

MEMBERS

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2. Shri Jaswant Singh Bishnoi
3. Shri Gurudas Dasgupta
4. Shri Shyama Charan Gupta
5. Shri Vijoy Krishna
6. Shri A. Krishnaswamy
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17. Shri G.M. Siddeshwara
18. Shri M.A. Kharabela Swain
19. Shri Suresh Prabhakar Prabhu
20. Shri Ramakrishna Badiga*
21. Vacant#

*Nominated to this Committee *w.e.f.* 26.8.2008
#Vacant *w.e.f.* 14.11.2008 on nomination of Shri Brajesh Pathak to Rajya Sabha.

Rajya Sabha

22. Shri Raashid Alvi
23. Shri M. Venkaiah Naidu
24. Shri S.S. Ahluwalia
25. Shri Mahendra Mohan
26. Shri C. Ramachandraiah
27. Shri Vijay J. Darda
28. Shri S. Anbalagan
29. Shri Moinul Hassan
30. Shri K.V.P. Ramachandra Rao
31. Shri Shivanand Tiwari

SECRETARIAT

1.	Shri R.C. Ahuja	—	*Additional Secretary*
2.	Shri A.K. Singh	—	*Director*
3.	Shri T.G. Chandrasekhar	—	*Deputy Secretary*

INTRODUCTION

I, the Chairman of the Standing Committee on Finance, having been authorized by the Committee to present the Report on their behalf, present this Seventy-Third Report on action taken by Government on the recommendations contained in the Sixty-seventh Report of the Committee (Fourteenth Lok Sabha) on Demands for Grants (2008-2009) of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment).

2. The Sixty-Seventh Report was presented to Lok Sabha on 16 April, 2008 and laid in Rajya Sabha on 15 April, 2008. Replies indicating action taken on all the recommendations contained in the Report were furnished by the Government on 30 July, 2008.

3. The Committee considered and adopted this Report at their sitting held on 11 December, 2008.

4. An analysis of action taken by Government on the recommendations contained in the Sixty-seventh Report of the Committee is given in the Appendix.

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

NEW DELHI;
11 *December*, 2008
20 *Agrahayana*, 1930 *(Saka)*

ANANTH KUMAR,
Chairman,
Standing Committee on Finance.

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STANDING COMMITTEE ON FINANCE
(2008-2009)

FOURTEENTH LOK SABHA

MINISTRY OF FINANCE

(DEPARTMENTS OF ECONOMIC AFFAIRS, EXPENDITURE, FINANCIAL SERVICES AND DISINVESTMENT)

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(2008-2009)

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December, 2008/Agrahayana, 1930 (Saka)

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MINISTRY OF FINANCE

(DEPARTMENTS OF ECONOMIC AFFAIRS, EXPENDITURE, FINANCIAL SERVICES AND DISINVESTMENT)

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NEW DELHI

December, 2008/Agrahayana, 1930 (Saka)

STANDING COMMITTEE ON FINANCE
(2008-2009)

FOURTEENTH LOK SABHA

CHAPTER I

REPORT

This Report of the Standing Committee on Finance deals with action taken by Government on the recommendations/observations contained in their Sixty-Seventh Report (Fourteenth Lok Sabha) on Demands for Grants (2008-09) of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services & Disinvestment) which was laid in Rajya Sabha on 15 April, 2008 and presented to Lok Sabha on 16 April, 2008.

2. The Report contained 12 recommendations. Action taken notes have been received from the Government in respect of all the recommendations pertaining to Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment contained in the Report. These have been categorised as follows:

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

Recommendation Nos. 3,5,6,7,10 and 11

(Total 6)
(Chapter II)

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

Recommendation No. 12

(Total 1)
(Chapter III)

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

Recommendation Nos. 1, 2, 4, 8 and 9

(Total 5)
(Chapter IV)

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

Nil

(Nil)
(Chapter V)

3. The Committee desire that the replies of the observations contained in Chapter-I be furnished to them expeditiously.

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

A. Surrender of funds by the Department of Economic Affairs

Recommendation (Sl. No. 1)

5. The Committee had observed that there was huge shortfall year after year in utilization of budgetary allocation made by the Ministry of Finance to certain items of expenditure. The fact that there was huge shortfall in expenditure year after year raised doubt whether the criteria of determining the Budget figures on the basis of extent of utilization of the allocation in the preceding year was followed at all. The Committee expressed hope that corrective steps would be taken to ensure that budget estimates were realistic and on sound basis in future.

6. The Government in their action taken reply have, *inter alia*, explained the reasons for underutilization of budget allocations in respect of two schemes *viz.*, Indian Development Economic Assistance Scheme and Viability Gap Funding which reads *inter-alia* as under:

Indian Development Economic Assistance Scheme:

"…..Indian Development Economic Assistance Scheme (IDEAS) had several components under it which required suitable provisioning of funds. However, due to some difference over the contents of the scheme, the scheme could take off only partially due to which provision kept had to be surrendered or remained unutilized. Anticipating the huge requirement of funds in the event of full operationalisation of the scheme in subsequent year, sharp increase in budgetary allocation was effected. Very often, due to unforeseen circumstances, budget allocation is not utilized satisfactorily. However, efforts are always made to project realistic budgetary estimate.

Viability Gap Funding:

FY 2005-06:

In 2005-06, a provision of Rs.100 crore and Rs.1400 crore was made for Infrastructure Development under two heads. The amount of Rs.1500 crore was surrendered due to following reasons:

The Scheme "Financial Support to Public Private Partnerships in Infrastructure" under the Viability Gap Funding Scheme was introduced in March, 2005 and Budget Provision were made in the Demand of Department of Economic Affairs. The CCEA note was prepared after incorporating the comments of Ministries/ Department and was sent to Cabinet Secretariat on 23rd March, 2005. On 15th April, 2005, Cabinet Secretariat returned the CCEA note with the remarks that the scheme be first placed before the Committee of Infrastructure serviced by Planning Commission. Committee of Infra-structure approved the scheme in its meeting on 30th June, 2005. Thereafter, the revised CCEA note was sent to Cabinet Secretariat and CCEA note was approved in August, 2005. After approval notification was issued on 8.8.2005 regarding constitution of Empowered Committee and Empowered Institution. The first meeting of Empowered Institution was held in September, 2005 where rules, procedure etc. were discussed. After that the guidelines were framed and notified in January, 2006. Finance Minister had written to Chief Ministers of States to popularise the scheme and broad-basing the proposals. No amount was disbursed in 2005-06 and the entire amount was surrendered.

FY 2006-07:

A Budget Estimate of Rs. 500 crore was made in MH 5475-Assistance for Infrastructure Development. The allocation was reduced to Nil during RE stage due to following reasons :

The Scheme was notified in January, 2006. As per the scheme the Viability Gap Funding (VGF) would be disbursed only after the Private Sector Company has subscribed and expended the equity contribution required for the project and will be released in proportion to debt disbursement remaining to be disbursed thereafter. No disbursement took place during 2006-07 since there is a time lag between initial approval and disbursement of fund and disbursement can only take place once the private party is selected through competitive bidding and it has invested its share of equity. The total budget allocation of Rs. 500 crore in BE 2006-07 was restricted to NIL in RE 2006-07."

7. The Ministry of Finance (Department of Economic Affairs) have explained that budget allocation under "Indian Development Economic Assistance Scheme" (IDEAS) very often is not utilized satisfactorily due to unforeseen circumstances. It is observed that budgetary allocation for the activities under the IDEAS is to meet international obligation and to honour those commitments. It is not clear as to what were the unforeseen circumstances, which led to under-utilization of funds meant for meeting the international commitments. The Committee would await details in this regard.

8. The Government's reply reveals that though the Scheme "Financial Support to Public Private Partnerships in Infrastructure" under the Viability Gap Funding Scheme was introduced in March, 2005, the entire allocation of Rs. 1500 crore for the year 2005-06 was surrendered due to time lag in implementation of the scheme. Similarly, nothing was utilized from Rs. 500 crore allocated for the year 2006-07 due to time lag in disbursement of funds. All this

is indicative of the lackadaisical approach in implementation of the development oriented scheme. It is obvious that huge budgetary allocations have been made without proper assessment of the pace of implementation of the scheme. The Committee would like to know the current status of the Viability Gap Funding Scheme and the extent of utilization of the budget allocations for the scheme during 2007-08. The Committee reiterate that corrective steps should be taken to ensure that budget estimates are realistic and on sound basis.

B. Portrayal of Fiscal and Revenue Deficits

Recommendation (Sl. No. 2)

9. It transpired during the examination of Demands for Grants of the Ministry of Finance that transactions on account of bonds/securities issued by the Government each year to finance subsidies on food, fertilizer and petroleum were not usually reflected in the fiscal and revenue deficits since there was no cash outgo due to matching receipts taken in lieu of issue of securities/bonds. The Finance Secretary had promised to get on to a path of transparency. The Committee hoped that steps would be taken in consultation with the Comptroller and Auditor General of India to reflect these transactions appropriately in the Fiscal and Revenue deficits in future.

10. The Government in their action taken reply have stated as under:

> "As a first step, securities issued in lieu of subsidies on food, fertilizer and petroleum during 2007-08, upto the time of presentation of the Budget 2008-09, have been clearly indicated in the 'Budget at a Glance' 2008-09.
>
> The Finance Minister has also indicated in para 122 of his budget 2008-09 speech that he intends to request the Thirteenth Finance Commission to revisit the road map for fiscal adjustment and suggest a suitably revised road map."

11. Display of information in the 'Budget at a Glance' does not set right the deficiencies in the figures of fiscal and revenue deficits shown in the budget. The Committee feel that the Finance Commission which is concerned with the question of devolution of finances between the Union and the States has nothing to do with how deficits in the Union Budget should be reflected. The Committee, therefore, stress that as promised by the Finance Secretary, and in line with the Committee's recommendation, action should be taken, without any further delay, to reflect the fiscal and revenue deficits appropriately in the Budget taking into account the securities issued in lieu of the subsidies.

C. Critical review of procedures regarding appointment of independent directors on the Boards of PSUs

Recommendation (Sl. No. 3)

12. There were five public sector undertakings (PSUs) against which adjudication proceedings were initiated by the Securities and Exchange Board of India for non-compliance of the provisions of Clause 49 1(A) of the Listing Agreement, due to non appointment of independent directors by the Government, on which the PSUs had no role as such. Observing that it was the responsibility of the Government to ensure timely appointment of Independent Directors so that PSUs could comply with the requirements of regulatory authorities, the Committee desired that the matter should be referred to the Department of Public Enterprises for a critical review of the existing procedures and issue of appropriate guidelines to address these problems.

13. The Government in their action taken reply have stated as under:

> "Securities and Exchange Board of India (SEBI) has initiated adjudication proceedings against the five PSUs for non compliance of the provisions of Clause 49 1(A) of the Listing Agreement. As desired by the Committee, the matter had been referred to the

Department of Public Enterprises for a critical review of existing procedures and issue of appropriate guidelines to address these problems."

14. The Ministry of Finance (Department of Economic Affairs) seemed to have derived satisfaction by simply making a reference to the Department of Public Enterprises about review of the existing procedure governing appointment of independent directors in the context of the Listing Agreement prescribed by the Securities and Exchange Board of India (SEBI). The Department of Economic Affairs have not bothered to ascertain from the Department of Public Enterprises whether the recommended review has been undertaken and if so, what was the outcome. These are matters on which the Department ought to take suo-motu action and be pro-active to apprise the Committee of the developments. The Committee would await information in this regard. As Public Sector Undertakings are subjected to scrutiny of C&AG, CVC, CBI and also parliamentary Committees, the concept of independent Directors, their need, role, competence and professionalism need to be defined. Even in the context of level playing field, the unique role, social obligations and autonomy of CPSUs should have to be kept in mind.

D. Credit Flow to Priority Sector

Recommendation (Sl. No. 4)

15. Shortfall in lending to agriculture as at the end of March, 2007 (provisional) was 2.40 percent in the case of public sector banks and 5.18 per cent in the case of private sector banks as against the target of 18% prescribed by Reserve Bank of India. Similarly, the shortfall in lending to weaker sections was 2.80 per cent in the case of public sector banks and 8.45 per cent in the case of private sector banks as against the target of 10 per cent of net bank credit. Despite the disincentive of compensating the shortfall in lending by a proportional funding to the Rural Infrastructure Development Fund (RIDF), where the rate of interest is comparatively very low, there has been considerable shortfall in

lending to agriculture every year. The Committee, therefore, observed that the situation warranted an effective mechanism to ensure that the targeted percentage of credit is lent to agriculture and priority sector.

16. The Government, in their action taken reply have stated, *inter-alia*, as under:

> "Considering the amount of shortfall in lending to priority sector (including agriculture), creation of four additional funds have been announced in the Budget Speech 2008-09. These funds, which are to be governed by the general guidelines that are now applicable to RIDF with some modifications, are as under:
>
> (i) A Fund of Rs. 5,000 crore is to be created in National Bank for Agriculture and Rural Development (NABARD) to enhance its re-finance operations to short term cooperative credit institutions.
>
> (ii) Two funds of Rs. 2,000 crore each are to be created in Small Industries Development Bank of India (SIDBI) – one for risk capital financing and other for enhancing refinance capability to the small and medium enterprises sector.
>
> (iii) A Fund of Rs. 1,200 crore is to be created in National Housing Bank (NHB) to enhance its re-finance operations in the rural housing sector.
>
> With the announcement and constitution of these funds, the banks with shortfall in lending to priority sector, including agriculture and weaker section, would have to contribute higher amounts.
>
> RBI has recently informed that the total shortfall of the scheduled commercial banks on account of non-achievement of overall priority sector lending target (40%) is Rs. 838.44 crore while the shortfall of the domestic commercial banks on account of non-achievement

of agricultural lending target (18%) (after netting of priority sector shortfall) is Rs. 21,818.27 crore. Thus, the total shortfall of these banks under the priority sector during the year 2007-08 amounts to Rs. 22,656.71 crore and the banks would be required to deposit the whole amount in these funds".

17. The Committee are distressed to note that the shortfall in agricultural lending target was as much as over Rs. 21,818 crore during 2007-08. There is nothing in the reply to indicate whether any effective mechanism has been envisaged to ensure that the targeted percentage of credit flows to agriculture and priority sector. The corpus of the four additional funds proposed to be created works out to just Rs. 10,200 crore which is less than half of the shortfall in agricultural lending. Even going by the assertion of the Ministry of Finance that the banks would be required to deposit the whole amount of shortfall in priority sector credit, in these funds, there will be over Rs. 12,456 crore left uncoreded. It is also not clear whether the proposed funds have already been created and if not, how soon they will be set up. Inadequate bank credit being one of the major reasons for the slow and tardy agriculture growth, the Committee, once again, reiterate the need to evolve an effective mechanism to ensure that the targeted percentage of credit is lent to agriculture and priority sector.

E. One Time Settlement Scheme for medium, small and tiny enterprises.

Recommendation (Sl. No. 8)

18. In view of globalization and consequent changes in Government policy the Committee were of the view that operations of a number of medium, small and tiny enterprises had became unviable. The Committee, therefore, recommended that these entities should be extended the facility of one time settlement for further five years to reduce their burden and enable them to be competitive in the changed circumstances.

19. The Government, in their action taken reply have stated as under:

> "As per Reserve Bank of India (RBI) circular No. RPCD.PLNFS.BC. No. 39/06/02.31/2005-06, dtd. 3rd September, 2005, regarding 'guidelines on One-Time Settlement Scheme (OTS Scheme) for SME Accounts', the last date for receipt of applications from borrowers was 31st March, 2006. This was a one-time measure.
>
> The matter was again taken up with RBI for their views on the issue of opening of the OTS Scheme for Micro and Small Industries and other small Loanees. RBI has opined that RPCD Department of RBI issued guidelines *vide* its circular, dtd. 3rd September, 2005 on OTS Scheme for SME Sector, as part of the "Policy Package for stepping up credit to SME Sector" announced by the Union Finance Minister in the Parliament on August 10, 2005. The circular under reference was applicable to Public Sector Banks and this was a one time-measure. RBI has further reported that apart from the above scheme, every bank formulates its own policy for waiver/write off/ compromise settlement of loans duly approved by their Board of Directors. Any borrower facing genuine hardship can always approach his banker for suitable remedy under its approved loan policy.
>
> RBI has further reported that it had recently constituted a Committee under the Chairmanship of Dr. K.C. Chakraborty, CMD, Punjab National Bank to study the reasons for sickness of SSI/SME units and also suggest remedial measures so that potentially viable sick units can be rehabilitated at the earliest. The Committee has submitted its Report in the month of April, 2008 and has suggested wide ranging measures including exit route for sick SMEs. The report has been put by RBI on its website for wider dissemination and comments".

20. The Committee regret to note that no concrete steps have been taken on their recommendation for extending the One Time

Settlement (OTS) Scheme to support unviable/sick medium, small and tiny enterprises for a further period of five years. For enabling these entities to compete successfully in the changed circumstances, the Committee feel that it is essential to extend the facility of OTS for a further period of five years. The Committee, therefore, reiterate their earlier recommendation. The Committee would also like to be apprised of the recommendations made by the Dr. K.C. Chakraborty Committee appointed by the RBI to study the reasons for sickness of SSI/SME units and the action taken thereon by the Government/ Reserve Bank.

F. RTGS and NEFT Facility

Recommendation (Sl. No. 9)

21. The Committee learnt that one of the reasons for recent volatility in the stock market was the failure of the banking payment system to synchronise with the payment requirements of stock exchanges as the existing facility of Real Time Gross Settlement (RTGS) was only for high value transactions and the absence of RTGS in large number of bank branches. The Committee, therefore, recommended that measures be taken to extend RTGS facility to the entire branch network of banks within a specified time frame.

22. The Government, in their action taken reply have stated as under:

> "Reserve Bank of India (RBI) has reported that as on date the total coverage of Real Time Gross Settlement (RTGS)/Net Electronic Funds Transfer (NEFT) branch network is around 44,000 as against the total network of branches at 71,000. The coverage of the total branch network would require additional infrastructural facilities at all the places where bank branches are located. It may not be possible to cover the entire network of branches until infrastructure like power, communication etc. is created. Further, there are branches of banks which are not part of RTGS and NEFT due to

their ineligibility to participate in it. Every effort is being made to cover all the eligible bank branches under NEFT/RTGS.

Bringing down the threshold limit for RTGS (now at Rs. 1 lakh) may, no doubt ensure its availability for covering more number of transactions. However, in order to ensure, that the system is available for time critical and large value transactions, the threshold limit has been imposed. Further, in order to meet the needs of retail users, another net electronic clearing facility called NEFT is already in place. RTGS and NEFT systems complement each other. Banks have already been advised to create awareness among their staff as well as clientele. RBI is also writing to CEOs of banks as also to other institutions in this regard. They are also going for a concerted propaganda in this regard".

23. It is observed from the reply of the Ministry of Finance that around 27,000 branches of banks are still left out of the ambit of RTGS/NEFT facility due to absence of infrastructure like power, communication, ineligibility of some branches to participate in RTGS/NEFT etc. Absence of the facility of RTGS/NEFT in all branches of banks leads to problems in synchronization in the settlement system of stock exchanges and banks which is stated to be a major factor in precipitating crisis, at times of volatility in the stock market. The Committee would, therefore, like to know in this context, how many branches of banks do not have requisite infrastructure and among the rest, how many are ineligible to participate in RTGS/NEFT and for what reasons. The Committee also desire to be apprised of the time frame for extending the RTGS/NEFT facility in respect of those branches which are eligible and are with adequate infrastructure.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Appointment of independent Directors of PSUs

Recommendation (Para No. 3)

There were five public sector undertakings(PSUs) against which adjudication proceedings had reportedly been initiated by the Securities and Exchange Board of India for non-compliance of the provisions of Clause 49 1(A) of the Listing Agreement as at the end of quarter ended 31st March, 2007. Non-compliance was on account of delay in appointment of independent directors by the Government. It is strange that PSUs have to face adjudication proceedings on a matter on which they have no control. It is the responsibility of the Government to be alive to the changed realities owing to shared ownership of listed PSUs and ensure timely appointment of independent directors so that the PSUs could comply with the requirements of regulatory authorities. The Committee desired that the matter should be referred to the Department of Public Enterprises for a critical review of existing procedures and issue of appropriate guidelines to address these problems.

Reply of the Government

Securities and Exchange Board of India (SEBI) has initiated adjudication proceedings against the five PSUs for non compliance of the provisions of Clause 49 1(A) of the Listing Agreement. As desired by the Committee, the matter had been referred to the Department of Public Enterprises for a critical review of existing procedures and issue of appropriate guidelines to address these problems.

Scheme of debt waiver and debt relief

Recommendation (Para Nos. 5, 6 and 7)

The Scheme of debt waiver and debt relief for farmers announced in the Budget proposals 2008-09 involving Rs. 60,000 crore was estimated to benefit 4 crore farmers who had availed institutional loans. The estimates were reportedly based on provisional figures and trends. Doubts had, however, been raised as to how in the absence of exact data, which were presently being collected, the quantum of fund and the number of beneficiaries were estimated. Further the Scheme was announced without making adequate budgetary provisions. Therefore, the Committee recommended that adequate provisions be provided for implementation of this scheme in the Budget itself.

The Committee were of the view that farming community was grappling with several constraints viz. imperfect market conditions, lack of backward and forward linkages, lack of assured and remunerative marketing opportunities and lack of remunerative prices and stagnating productivity resulting in declining profitability and lower income for farmers. The National Commission on Farmers seemed to have addressed all these issues, however, no effective steps had so far been taken to remove these constraints which had ultimately perpetuated the indebtedness of farmers. Therefore, farmers were forced to take extreme measures as suicides.

The Committee were of the view that the loan waiver scheme appeared to address the symptoms and not the root cause of the malady as rural indebtedness was deep rooted in the Indian agrarian society requiring concerted efforts and multipronged approach. Therefore, the Committee felt that a holistic approach needed to be taken to resolve all the problems confronted by farmers. Besides, the rate of interest for agricultural credit needed to be brought down further and a mechanism be evolved to facilitate swapping of non-institutional credit with institutional credit. Further, there should not be any categorization/

segregation of farmers and debt waiver scheme might be made applicable to all the farmers uniformly. The Committee also urged that there should be a long term comprehensive plan of action, on the basis of available inputs/studies for mitigating the hardships of the agriculture sector in general and farmers in particular for implementation over a specific period of time.

Reply of the Government

The Agricultural Debt Waiver and Debt Relief (ADWDR) Scheme, 2008 for Farmers was announced by the Hon'ble Finance Minister in his Budget Speech 2008-09. Preliminary estimates showed the total financial implication at Rs.60,000 crore. These estimates are based on provisional figures and trends based on published/available figures with Reserve Bank of India/NABARD. Based on these provisional estimates, a Farmer's Debt Relief Fund with an initial corpus of Rs. 10,000 crore was created in the Financial Year 2007-08. The Fund is to be augmented as required, for reimbursing the claims of Scheduled Commercial Banks, Regional Banks and Cooperative Credit Institutions against the amount of debt waiver/relief granted by them as per the approved Scheme. An additional Rs. 15,000 crore is to be provisioned during the First Supplementary for the Demands for Grants 2008-09.

The Guidelines for implementation of ADWDR Scheme 2008 have been issued.

The broader issues on constraints faced by the farming community and the issues/recommendations of the National Commission on Farmers are dealt with by Ministry of Agriculture (MoA). The constraints faced by the farming community such as market conditions, lack of assured and remunerative marketing opportunities remain critical and important. To address the constraints of the farming community, the Government have formulated the 'National Policy for Farmers 2007' on the basis of the recommendations of the National Commission on Farmers.

Reserve Bank has taken a number of steps to reduce the plight of indebted farmers. Banks have been allowed in November 2006 to frame transparent One Time Settlement (OTS) policies for assisting distressed farmers and also farmers defaulting on their loans, due to circumstances beyond their control. Also, each State Level Banker's Committee (SLBC) convener bank has been advised to start financial literacy and credit counseling centre in their State, to help stressed farmers in making prudent use of banking facilities. As on May 10, 2006, 96 credit counseling centres have been opened by banks.

Some of the important schemes being implemented by the Government are indicated here:

a. **Providing remunerative prices:**

With a view to providing remunerative price for the agriculture produce, the Commission for Agricultural Costs & Prices (CACP) recommends the Minimum Support Price (MSP) for 24 important crops. While fixing the MSP, the cost of production (which includes the cost of paid out inputs), imputed value of family labour, and rentals for the own land are taken into consideration. The MSP is usually higher than the cost of production and makes the produce remunerative to the farmers. The MSP is normally announced upfront before the commencement of the sowing operations and thus acts as an impetus to the farmers to go for that crop. Increase in the MSP, for paddy, wheat, moong, toor, arhar, jute in 2007-08, over the MSP for 2004-05 was 33%, 56.3%, 23.4%, 14.4% and 18.5% respectively. (Source: Economic Survey, 2007-08).

b. **Incentive to State Government to increase their share of investment in agriculture:**

The Government has launched a programme named Rashtriya Krishi Vikas Yojana (RKVY) to incentivise the States to increase their share of investment in agriculture in their State plans. An allocation of Rs.25,000 crore has been made in the 11th Five Year plan under RKVY. RKVY will be a State Plan Scheme and the eligibility for credit under the scheme would depend upon the amount provided in the State budgets for agriculture and allied sectors, over and above the base line percentage expenditure incurred on agriculture & allied sectors.

c. **Making the credit for agriculture affordable to farmers:**

From Kharif 2006-07, the farmers are being provided with short term/crop loans upto a principal amount of Rs. 3 lakh @ 7% per annum rate of interest. For this, the Government is providing interest subvention @ 2% per annum to the Public Sector Banks, Regional Rural Banks (RRBs) and Cooperative Credit Institutions (CCIs) on their own involvement of funds and concessional refinance is being extended by National Bank for Agriculture and Rural Development (NABARD) to RRBs and CCIs for this purpose.

d. **Introduction of Kisan Credit Cards (KCC):**

The Kisan Credit Card Scheme, launched in the year 1998, addresses the needs of timely and affordable short and medium term loans of farmers. As on 30.04.2008, commercial banks, RRBs and CCIs have issued 7,15,24,772 KCCs to the farmers. NABARD has advised banks to extend coverage through expanding their outreach by lending to more farmers including non-willful defaulters, oral lessees, tenant farmers, share croppers, who may have been outside the fold of the scheme as also new farmers.

e. **Agriculture Insurance:**

The National Agricultural Insurance Scheme (NAIS) for crops has been implemented from Rabi 1999-2000 season with the objective of providing insurance coverage in the event of failure of any of the notified crops as a result of natural calamities, pests and diseases. The scheme is available to all the farmers (both loanee and non-loanee) irrespective of their size of holding and operates on the basis of area approach. At present, 10% subsidy in premium is available to small and marginal farmers, which is shared equally by the Central and State Government. Since inception of the scheme and until Rabi 2006-07, about 971 lakh farmers were covered under the scheme.

f. Agricultural Marketing — Reform through APMC Act:

The MoA circulated a model APMC Act, 2003 and suggested amendments to the State Agriculture Produce Marketing Committee Act (APMC Act) so as to promote investment in marketing infrastructure, motivating corporate sector to undertake direct marketing and to facilitate a material integrated market. As of now, 15 States have amended the APMC Acts.

g. Promoting Organic Farming:

Reduction in the farmers margin on account of higher input costs and un-remunerative prices has affected the financial position of the farmers adversely. Taking the same into view, efforts are being made by GoI as well as NABARD to promote Organic Farming. For this purpose, awareness among the farmers is being created and financial support through subsidy for practising organic farming is provided.

h. Rural Infrastructure Development Fund (RIDF):

Through RIDF, operationalised by NABARD, it is ensured that State Governments are being financed at subsidized rates of interest so that they can develop and maintain agricultural and rural infrastructure for the benefit of rural masses.

The Government is conscious of the dimension of the problems and is sensitive to the difficulties of the farming community, especially the small and marginal farmers. Therefore, after weighing the *pros* and *cons* of debt waiver and loaning and taking into account the resource position, the Government announced the Agricultural Debt Waiver and Debt Relief Scheme(ADWDRS) 2008, which will, among other things :

a. De-clog the choked line of credit to farmers, as a sizeable number of indebted farmers who were otherwise unable to access formal financial sector will now get access to fresh loans. Such farmers otherwise, had to depend on the informal sector to meet their immediate credit needs at a usurious rate of interest;

b. Strengthen the financial health of the rural financial institutions, particularly, the Cooperative Credit Institutions (CCIs) and Regional Rural Banks (RRBs), whose financial position was adversely affected due to defaults by a substantial number of farmers, so that these banks can meet the credit needs of the farmers, particularly, the small farmers, marginal and tenant farmers, in a more effective manner.

The ADWDR Scheme, 2008 does not cover the loans taken from the money lenders and other non-institutional sources as they have been found to be unacceptable for obvious reasons. There is usually no record of such loans, neither of the lenders nor borrowers, and it would be near impossible to examine the correctness of claims in this behalf.

From Kharif 2006-07, the farmers are being provided with short term/crop loans upto a principal amount of Rs. 3 lakh @ 7% per annum rate of interest. For this, the Government is providing interest subvention @ 2% per annum to the Public Sector Banks, Regional Rural Banks (RRBs) and Cooperative Credit Institutions (CCIs) on their own involvement of funds and concessional refinance is being extended by National Bank for Agriculture and Rural Development (NABARD) to RRBs and CCIs for this purpose. As of now there is no scheme before the Government to further reduce the rate of interest.

In 2004, the banks were advised to provide loans to farmers for swapping non-institutional debts (including that taken from money lenders) against appropriate collateral and group security. Under this Scheme, the banks have provided Rs. 307.30 crore (data provisional) of credit to farmers against 71,103 accounts. From the year 2008-09, banks have been advised to earmark around 3% of the target for agriculture credit in 2008-09 for giving loans under the Debt Swap Scheme.

As regards the view of the Committee that there should be no categorisation or segregation of farmers in the implementation of Debt Waiver and Debt Relief Scheme and that it should be made applicable to all farmers uniformly, the Government is of the view that unlike big farmers, small/marginal/tenant farmers are not in a position to absorb the shocks arising out of natural calamities/other events beyond their control, because of which they become non-willful defaulters to the banking system. Besides, the inclusion of other farmers (farm holding more than 2 hectares) in the Debt Waiver Scheme as against the Debt Relief Scheme would highly inflate the financial implication of the Scheme, which under the current fiscal situation of the country is not advisable.

Outstanding Utilisation Certificates

Recommendation (Para No. 10)

The Committee regreted to note that even after two years, Utilization Certificates (UCs) in respect of over 45 percent cases involving an amount of Rs. 9904 crore were yet to be received as on 1.1.08 in respect of grants released upto March, 2006. As per Rule 212(1) of GFR, 2005, Utilisation Certificates for grants released have to be submitted within 12 months of the closure of the financial year. Majority of these outstanding UCs fell in the jurisdiction of eight Ministries *viz.* Ministry of Environment and Forest (7546 UCs involving an amount of Rs.922 crores), Health and Family Welfare (3384 UCs involving an amount of Rs. 2990 crores), Higher Education (2641 UCs involving an amount of Rs. 344 crores), Elementary Education (1501 UCs involving Rs. 2322 crores), Women & Child Development (5823 UCs involving an amount of Rs. 328 crores), Youth Affairs & Sports (8305 UCs involving Rs. 273 crores), Social Justice and Empowerment (1262 UCs involving Rs. 850 crores), Culture (9295 UCs involving Rs. 273 crores). It is the responsibility of the Department of Expenditure to ensure that financial rules are strictly complied with and financial discipline is maintained. The Committee hoped that the Department of Expenditure will not be found wanting in this respect in future.

Reply of the Government

Recommendation regarding obtaining of outstanding Utilisation Certificates are noted for compliance. Vigorous efforts are being made with the major defaulting Ministries so that outstanding Utilisation Certificates are brought to the minimum. Letters have been sent to the Secretaries of the Ministries/Departments urging them to make concerted efforts for obtaining outstanding Utilisation Certificates from grantee institutions at the earliest. The observation of the Committee has also been communicated to these Ministries/Departments for necessary follow up action. Department of Expenditure will continue to pursue with defaulting Ministries/Departments for minimizing the outstanding Utilisation Certificates. However, it may be pointed out that it is for the concerned Ministry/Department to ensure that the provision of the GFRs are strictly complied with, before releasing grants to organization/ statutory bodies/institutions. Department of Expenditure has been advising administrative Ministries/Departments from time-to-time to ensure that no fresh grants are released, unless Utilisation Certificates in respect of previous grants have been obtained.

Under-utilisation of the grants/funds in the Ministries

Recommendation (Para No. 11)

The Committee were concerned to note that a number of Ministries had surrendered considerable amount of allotted funds thereby depriving funds for a score of approved developmental programmes. For instance, during 2006-07, the Ministry of Rural Development had unspent amount of as much as over Rs. 2,622 crore and the Ministry of Textiles over Rs. 640 crore. There were eight other Ministries which had surrendered more than Rs. 100 crore each during that year. Scrutiny of figures in this regard during two previous years also reflected the same phenomenon. All this called for closer scrutiny by the Department of Expenditure before approval of projected expenditure by the Ministries. The Committee hoped that concerted efforts would be made to ensure that resources were allocated judiciously among Ministries so that such underutilization do not recur in future.

Reply of the Government

This Ministry accepts the Committee's Recommendation for compliance.

CHAPTER III

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

Professional Services

Recommendation (Para No. 12)

The Committee noted that under the head 'Professional Services' in Department of Disinvestment, budgetary allocation was revised upwards by more than two times from Rs. 2 crore to Rs. 6.1 crore during the year 2007-08. However, the actual expenditure at the end of March, 2008 was about Rs. 1.16 crore, a little more than one sixth of the revised allocation. It was seen in this connection that 80% of the funds under this head had been surrendered during 2006-07. The Committee desired to know what was the justification for revising the allocation so steeply during 2007-08 and the reasons for failure to achieve the objective. The Committee hoped that due care will be exercised in future to avoid recurrence of such instances.

Reply of the Government

The requirements under the Budget Head Payment for Professional and Special Services for the year 2006-07 had, in October, 2005, been projected on the basis of the anticipated disinvestment activities in 2006-07. The Government had decided for disinvestment of small portions of equity through 'Offer for Sale' in Power Finance Corporation (PFC), along with the company's fresh issue and 'Offer for Sale' of small portions of equity in National Mineral Development Corporation (NMDC), National Aluminum Company Limited (NALCO) and Neyveli Lignite Corporation Limited (NLC). The process of disinvestment in each of these cases had been taken up. However, on 6th July, 2006, the

Government decided to keep all disinvestment decisions and proposals on hold, pending further review. Consequently, the process of disinvestment of small portions of equity in the aforesaid companies was not carried forward.

In October, 2006, at the time of estimating the RE 2006-07 and BE 2007-08, the requirement was scaled down to Rs.2.00 crore in RE 2006-07 and the BE for 2007-08 was also projected at the same level of Rs.2.00 crore. Subsequently, during November-December, 2006, Government approved the proposals of Initial Public Offerings consisting of fresh issue of equity by three power sector companies namely Power Grid Corporation of India Limited (PGCIL), Rural Electrification Corporation Limited (REC) and National Hydro-electric Power Corporation Limited. Thereafter, on 8th February, 2007, Government decided in conjunction to give an 'Offer for Sale' of 10%, 5% and 5% of pre-issue paid up equity capital of REC, PGCIL and NHPC respectively.

In order to provide for payment of the apportionable expenditure for these transactions, the provisions under the head 'Professional and Special Services' for 2007-08 was enhanced to Rs.6.01 crore in RE 2007-08. The additional requirement of Rs. 4.00 crore was projected in the Third and final batch of Supplementary Demands for Grants 2007-08 and the concerned Appropriation Bill received assent of the President only on 25th March, 2008. While expenditure under the head 'Professional & Special Services' was Rs.1.16 crore as on 19/3/2008, but the actual expenditure, after the provision was augmented through the Third and final batch of Supplementary Demands for Grants, was Rs. 5.80 crores in 2007-08.

CHAPTER IV

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Under-utilization of funds

Recommendation (Para No. 1)

There had been huge shortfall year after year in utilization of budgetary allocation made by the Ministry of Finance to certain items of expenditure. For instance, the shortfall in utilization of funds under the head 'Grants-in-aid' was as much as Rs. 54.59 crore (50%) in 2005-06, Rs. 211.47 crore (95%) in 2006-07 and Rs. 43.44 crore (92%) in 2007-08. Similarly, under the head "Investment Commission – Office expenses", the under-utilization of funds was to the tune of Rs. 0.15 crore (75%) in 2005-06, Rs. 0.19 crore (95%) in 2006-07 and Rs. 0.10 crore (67%) in 2007-08. One of the criteria for determining allocations is the extent of utilization in the preceding year. The fact that there had been huge shortfall in expenditure year after year raised doubt whether this criterion was applied at all in determining the budget figures. The Committee hoped that corrective steps would be taken to ensure that budget estimates were realistic and on sound basis in future.

Reply of the Government

It is reiterated that the Scheme "Indian Development Economic Assistance Scheme" (IDEAS) for which allocations were made under the Major Head – 3605, Minor Head – 00.101, Detailed Head: 30.00.31— Grants-in-aid, was a new scheme with several components under it. All these components required suitable provisioning of funds. However, due to some difference over the contents of the scheme, the scheme could take off only partially due to which provision kept had to be surrendered or remained un-utilized. Reasons for huge allocation in the subsequent year was that efforts to make the scheme fully operational were on. Anticipating the huge requirement of funds in the event of full operationalisation of the scheme in subsequent year, sharp increase in budgetary allocation was effected. Very often, due to unforeseen circumstances, budget allocation is not utilized satisfactorily. However, efforts are always made to project realistic budgetary estimate.

Viability Gap Funding:

FY 2005-06:

In 2005-06, a provision of Rs.100 crore and Rs.1400 crore was made for Infrastructure Development under two heads. The amount of Rs.1500 crore was surrendered due to following reasons:

The Scheme "Financial Support to Public Private-Partnerships In Infrastructure" under the Viability Gap Funding Scheme was introduced in March, 2005 and Budget Provision were made in the Demand of Department of Economic Affairs. The CCEA note was prepared after incorporating the comments of Ministries/ Department and was sent to Cabinet Secretariat on 23rd March, 2005. On 15th April, 2005, Cabinet Secretariat returned the CCEA note with the remarks that the scheme be first placed before the Committee of Infrastructure serviced by Planning Commission. Committee of Infrastructure approved the scheme in its meeting of 30th June, 2005. Thereafter, the revised CCEA note was sent to Cabinet Secretariat and CCEA note was approved in August, 2005. After approval notification was issued on 8.8.2005 regarding constitution of Empowered Committee and Empowered Institution. The first meeting of Empowered Institution was held in September, 2005 where rules, procedure etc. were discussed. After that the guidelines were framed and notified in January, 2006. Finance Minister had written to Chief Ministers of States to popularise the scheme and broad-basing the proposals. No amount was disbursed in 2005-06 and the entire amount was surrendered.

FY 2006-07:

A Budget Estimate of Rs. 500 crore was made in MH 5475-Assistance for Infrastructure Development. The allocation was reduced to Nil during RE stage due to following reasons :

The Scheme was notified in January, 2006. As per the scheme the Viability Gap Funding (VGF) would be disbursed only after the Private Sector Company has subscribed and expended the equity contribution required for the project and will be released in proportion to debt disbursement remaining to be disbursed thereafter. No disbursement took place during 2006-07 since there is a time lag between initial approval and disbursement of fund and disbursement can only take place once the private party is selected through competitive bidding and it has invested its share of equity. The total budget allocation of Rs. 500 crore in BE 2006-07 was restricted to NIL in RE 2006-07.

Minor Head 13.01:31—'Grants-in-aid' under Major Head 2075—Miscellanious General Services 00.800 – Other Expenditure 13 – Creating Institutional Strengthening and Capacity building of Aid, Accounts & Audit Division 13.01 External Aided Component. The allocation and utilization of funds during the period 2005-06 to 2007-08 is shown below:—

(Rs. In crores)

Year	B.E.	R.E.	Actual Exp.	Variation/ saving(-)/ Excess (+) (*i.e.* between BE and Actual)	Percentage Utilization of R.E.
2005-06	0.80	0.80	0.72	(-) 0.08	90%
2006-07	0.80	0.80	0.80	—	100%
2007-08	0.48	0.75	0.60	(+) 0.12	80%

It would be seen from the above table that the entire budget grant for the year was fully utilized in the years 2006-07 & 2007-08. The Budget Allocations are made on the basis of rigorous examination of Demands made by each units preceded by discussions with the Secretary (Expenditure) in September of the previous year. After allocations, constant monitoring mechanism monthly/quarterly expenditure progress has been put in place. Revised Estimates are prepared based upon the trend of expenditure and mandatory cuts imposed by the Department of Expenditure. The grant controlling authorities are constantly reminded and directed to project the requirement on near realistic basis.

(ii) **Investment Commission** is a body consisting of eminent persons. The expenditure booked by the Commission mostly pertains to the costs incurred by them in engaging consultants to prepare reports/ give tour reports and in publication. The Budgetary Allocation is made on the basis of request of the Commission. The savings pointed out under "Office Expenses" were against the RE provisions of Rs.20 lakh (2005-06), Rs.12 lakh (2006-07) and Rs.15 lakh (2007-08). As the expenses were mostly met by the Commission and did not seek reimbursement the small portions were underutilized. It is to be noted with appreciation that the Commission did not book any expenditure on establishment matters like office rent, regular office staff, etc. If in future such expenditure becomes necessary there would be better utilization of the budgeted amount.

Transparency in Revenue and Fiscal Deficits

Recommendation (Para No. 2)

It had transpired during the examination of Demands for Grants of the Ministry of Finance that transactions on account of bonds/ securities issued by the Government each year to finance subsidies on food, fertilizer and petroleum were not usually reflected in the Fiscal and Revenue deficits since there was no cash outgo due to matching receipts taken in lieu of issue of securities/bonds. The Finance Secretary was candid enough to admit to this lack of transparency and had promised to get on to a path of transparency. The Committee hoped that steps would be taken in consultation with the Comptroller and Auditor General of India to reflect the above transactions appropriately in the Fiscal and Revenue deficits in future.

Reply of the Government

As a first step, securities issued in lieu of subsidies on food, fertilizer and petroleum during 2007-08, upto the time of presentation of the Budget 2008-09, have been clearly indicated in the 'Budget at a Glance' 2008-09.

The Finance Minister has also indicated in para 122 of his budget 2008-09 speech that he intends to request the Thirteenth Finance Commission to revisit the road map for fiscal adjustment and suggest a suitably revised road map.

Credit Flow to Priority Sector

Recommendation (Para No. 4)

The Committee found that the shortfall in lending to agriculture as at the end of March, 2007 (provisional) was 2.40 per cent in the case of public sector banks and 5.18 per cent in the case of private sector banks as against the target of 18% prescribed by RBI. Similarly, the shortfall in lending to weaker sections was 2.80 per cent in the case of public sector banks and 8.45 per cent in the case of private sector banks as against the target of 10 per cent of net bank credit. Shortfall in lending to agriculture and priority sector is required to be compensated by a proportional funding to the Rural Infrastructure Development Fund (RIDF) where the rate of interest is comparatively very low. That despite this disincentive, there had been considerable shortfall in lending to agriculture every year, warranted an effective mechanism to ensure that the targeted percentage of credit was lent to agriculture and priority sector. The Committee awaited the Ministry's response in this regard.

Reply of the Government

Outstanding credit to agriculture by public sector banks has gone up from Rs. 70,501 crore in March 2004 to Rs. 2,02,614 crore in March 2007, showing a robust compounded annual rate of growth of over 30 per cent. Lending to agriculture as a percentage of net bank credit has also improved from 14.5 per cent to 15.4 per cent during the same period. However, it has been lower than the target of 18% of net bank credit prescribed by Reserve Bank. This is partly due to lower growth rate of agriculture sector compared to industry and services sectors. As regards lending to weaker sections, the shortfall in achievement of this target would be taken into account for allocation of Rural Infrastructure Development Fund (RIDF) contributions with effect from April 2009. An announcement of this effect has been made in the Annual Policy Statement of Reserve Bank of India (RBI) for the year 2008-09 and the banks have been informed accordingly. This is expected to lead to better performance by banks as far as lending to the weaker sections sub-target of 10% is concerned.

Besides above, from April 30, 2007, the base on which the priority sector target is calculated has been modified. Accordingly, banks are now required to lend to priority sector at 40% of adjusted net bank credit (ANBC). ANBC represents net bank credit plus investments made by banks in non-Statutory Liquidity Ratio (SLR) bonds under Held to Maturity category or credit equivalent amount of Off-Balance Sheet Exposures (OBE), whichever is higher, as on March 31 of the preceding accounting year. The outstanding Foreign Currency Non-Resident (Banks) (FCNR) (B) and Non-Resident Non-Repatriable Term Deposit Accounts (NRNR) deposits balances would no longer be deducted for computation of ANBC for priority sector lending purposes. This change may increase the priority sector lending obligations of banks in absolute terms.

Considering the amount of shortfall in lending to priority sector (including agriculture), creation of four additional funds have been announced in the Budget Speech 2008-09. These funds, which are to be governed by the general guidelines that are now applicable to RIDF with some modifications, are as under:—

(i) A Fund of Rs. 5,000 crore is to be created in National Bank for Agriculture and Rural Development (NABARD) to enhance its re-finance operations to short term cooperative credit institutions.

(ii) Two funds of Rs. 2,000 crore each are to be created in Small Industries Development Bank of India (SIDBI) — one for risk capital financing and other for enhancing refinance capability to the small and medium enterprises sector.

(iii) A Fund of Rs.1,200 crore is to be created in National Housing Bank (NHB) to enhance its re-finance operations in the rural housing sector.

With the announcement and constitution of these funds, the banks with shortfall in lending to priority sector, including agriculture and weaker section, would have to contribute higher amounts.

RBI has recently informed that the total shortfall of the scheduled commercial banks on account of non-achievement of overall priority sector lending target (40%) is Rs. 838.44 crore while the shortfall of the domestic commercial banks on account of non-achievement of agricultural lending target (18%) (after netting of priority sector shortfall) is Rs. 21,818.27 crore. Thus, the total shortfall of these banks under the priority sector during the year 2007 - 08 amounts to Rs. 22,656.71 crore and the banks would be required to deposit the whole amount in these funds.

One Time Settlement Scheme for medium, small and tiny enterprises

Recommendation (Para No. 8)

In view of recent globalization and consequential changes in Government policy, the Committee were of the view that the operations of a number of medium, small and tiny enterprises had become unviable. The Committee, therefore, recommended that these entities should be extended the facility of One Time Settlement Scheme for further five years to reduce their burden and enable them to be competitive in the changed circumstances.

Reply of the Government

As per Reserve Bank of India (RBI) circular No. RPCD.PLNFS.BC. No. 39/06/02.31/2005-06, dtd. 3rd September, 2005, regarding 'guidelines on One-Time Settlement Scheme (OTS Scheme) for SME Accounts', the last date for receipt of applications from borrowers was 31st March, 2006. This was a one-time measure.

The matter was again taken up with RBI for their views on the issue of opening of the OTS Scheme for Micro and Small Industries and other small Loanees. RBI has opined that RPCD Department of RBI issued guidelines *vide* its circular, dtd. 3rd September, 2005 on OTS Scheme for SME Sector, as part of the "Policy Package for stepping up credit to SME Sector" announced by the Union Finance Minister in the Parliament on August 10, 2005. The circular under reference was applicable to Public Sector Banks and this was a one time-measure. RBI has further reported that apart from the above scheme, every bank formulates its own policy for waiver/write off /compromise settlement of loans duly approved by their Board of Directors. Any borrower facing genuine hardship can always approach his banker for suitable remedy under its approved loan policy.

RBI has further reported that it had recently constituted a Committee under the Chairmanship of Dr. K.C. Chakraborty, CMD, Punjab National Bank to study the reasons for sickness of SSI/SME units and also suggest remedial measures so that potentially viable sick units can be rehabilitated at the earliest. The Committee has submitted its Report in the month of April, 2008 and has suggested wide ranging measures including exit route for sick SMEs. The report has been put by RBI on its website for wider dissemination and comments.

Real Time Gross Settlement (RTGS) facility in Banks

Recommendation (Para No. 9)

Real Time Gross Settlement System (RTGS), operationalised in March, 2004 for facilitating inter bank funds transfer and customer transactions on real time basis is currently available in 40,600 branches of commercial banks for transaction of minimum Rs. 1 lakh and above. The Committee learnt that one of the reasons for recent volatility in the stock market was the failure of the banking payment system to synchronise with the payment requirements of stock exchanges as the existing facility of RTGS is only for high value transactions and the absence of RTGS in large number of branches. The Committee recommended that measures be taken to extend RTGS facility to the entire branch network within a specified timeframe. The question of bringing down the threshold limit to enable large number of users to avail the facility should also be examined. The Committee also felt that there was a need for launching an awareness programme to educate people about benefits of this system for facilitating speedy transactions.

Reply of the Government

Reserve Bank of India (RBI) has reported that as on date the total coverage of Real Time Gross Settlement (RTGS) / Net Electronic Funds Transfer (NEFT) branch network is around 44,000 as against the total network of branches at 71,000. The coverage of the total branch network would require additional infrastructural facilities at all the places where bank branches are located. It may not be possible to cover the entire network of branches until infrastructure like power, communication etc. is created. Further, there are branches of banks which are not part of RTGS and NEFT due to their ineligibility to participate in it. Every effort is being made to cover all the eligible bank branches under NEFT/ RTGS.

Bringing down the threshold limit for RTGS (now at Rs. 1 lakh) may, no doubt ensure its availability for covering more number of

transactions. However, in order to ensure, that the system is available for time critical and large value transactions, the threshold limit has been imposed. Further, in order to meet the needs of retail users, another net electronic clearing facility called NEFT is already in place. RTGS and NEFT systems complement each other. Banks have already been advised to create awareness among their staff as well as clientele. RBI is also writing to CEOs of banks as also to other institutions in this regard. They are also going for a concerted propaganda in this regard.

CHAPTER V

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

-NIL-

NEW DELHI;
11 *December*, 2008
20 *Agrahayana*, 1930 *(Saka)*

ANANTH KUMAR,
Chairman,
Standing Committee on Finance.

ANNEXURE

MINUTES OF THE TENTH SITTING OF STANDING COMMITTEE ON FINANCE

The Committee sat on Thursday, 11th December, 2008 from 1600 hrs. to 1700 hrs. in Committee Room No. 'B', Parliament House Annexe, New Delhi.

PRESENT

Shri Ananth Kumar—*Chairman*

MEMBERS

Lok Sabha

2. Shri Jaswant Singh Bishnoi
3. Shri Gurudas Dasgupta
4. Shri Shyama Charan Gupta
5. Shri Vijoy Krishna
6. Shri Rupchand Pal
7. Shri Suresh Prabhakar Prabhu

Rajya Sabha

8. Shri Mahendra Mohan
9. Shri Vijay J. Darda
10. Shri Moinul Hassan
11. Shri K.V.P. Ramachandra Rao
12. Shri S.S. Ahluwalia

SECRETARIAT

1. Shri R.C. Ahuja — *Additional Secretary*
2. Shri A.K. Singh — *Director*
3. Shri T.G. Chandrasekhar — *Deputy Secretary*
4. Shri Ram Kumar Suryanarayanan — *Deputy Secretary-II*

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

3. The Committee, then took up the following Draft Reports for consideration :-

(i) Draft action taken Report on the recommendations/ observations contained in the 67th Report on Demands for Grants (2008-09) of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment);

(ii) Draft action taken Report on the recommendations/ observations contained in the 68th Report on Demands for Grants (2008-09) of the Ministry of Finance (Department of Revenue).

(iii) Draft action taken Report on the recommendations/ observations contained in the 69th Report on Demands for Grants (2008-09) of the Ministry of Planning.

(iv) Draft action taken Report on the recommendations/ observations contained in the 70th Report on Demands for Grants (2008-09) of the Ministry of Statistics and Programme Implementation.

(v) Draft action taken Report on the recommendations/ observations contained in the 71st Report on Demands for Grants (2008-09) of the Ministry of Corporate Affairs.

The Committee adopted the Report at (iii) above without any amendment and the Reports at (i), (ii), (iv) and (v) with modifications as shown in the annexure.

4. The Committee authorized the Chairman to finalise these Reports in the light of the modifications made and present the same to Parliament.

5. The Committee decided to defer consideration of the two Draft Reports on (i) 'Flow of Credit to Agriculture Sector'; and (ii) 'Counterfeit Currency Notes in Circulation', to a subsequent sitting.

The Committee then adjourned.

ANNEXURE

(a) Modification made in Chapter-I of the draft action taken report on the 67th Report on Demands for Grants (2008-09) of Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment);

Para	Line	Modification
10	8	After "…..action should be taken", Insert "without any further delay,"
13	–	Insert the following sentence at the end of the Para: "As Public Sector Undertakings are subjected to scrutiny of C&AG, CVC, CBI and also Parliamentary Committees, the concept of independent Directors, their need, role, competence and professionalism need to be defined. Even in the context of level playing field, the unique role, social obligations and autonomy of CPSUs should have to be kept in mind".

(b) Modification made in Chapter-I of the draft action taken report on the 68th Report on Demands for Grants (2008-09) of Ministry of Finance (Department of Revenue).

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(c) Modification made in Chapter-I of the draft action taken report on the 70th Report on Demands for Grants (2008-09) of the Ministry of Statistics and Programme Implementation.

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(d) Modification made in Chapter-I of the draft action taken report on the 71st Report on Demands for Grants (2008-09) of the Ministry of Corporate Affairs.

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APPENDIX

(*Vide* Para 4 of the Introduction)

ANALYSIS OF THE ACTION TAKEN BY GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE SIXTY-SEVENTH REPORT OF THE STANDING COMMITTEE ON FINANCE (FOURTEENTH LOK SABHA) ON DEMANDS FOR GRANTS (2008-2009) OF THE MINISTRY OF FINANCE (DEPARTMENTS OF ECONOMIC AFFAIRS, EXPENDITURE, FINANCIAL SERVICES AND DISINVESTMENT)

		Total	% of total
(i)	Total number of Recommendations	12	
(ii)	Recommendations/observations which have been accepted by the Government (*Vide* Recommendation Nos. 3, 5, 6, 7, 10 & 11)	6	50.00%
(iii)	Recommendations/observations which the Committee do not desire to pursue in view of the Government's replies (*Vide* Recommendation No. 12)	1	08.33%
(iv)	Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee (*Vide* Recommendation Nos. 1, 2, 4, 8 & 9)	5	41.67%
(v)	(Recommendation/observation in respect of which final reply of the Government is still awaited (Nil)		00.00%