FORTY-FOURTH REPORT

STANDING COMMITTEE ON FINANCE
(2011-2012)

(FIFTEENTH LOK SABHA)

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

[Action taken by the Government on the recommendations contained in the Thirty-third Report of the Standing Committee on Finance on Demands for Grants (2011-12) of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment)]

Presented to Lok Sabha on 22.12.2011

Laid in Rajya Sabha on 22.12.2011

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LOK SABHA SECRETARIAT
NEW DELHI

December, 2011/*Agrahayana,* 1933 *(Saka)*

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CONTENTS

COMPOSITION OF THE STANDING COMMITTEE ON FINANCE (2011-2012)

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INTRODUCTION

I, the Chairman of the Standing Committee on Finance, having been authorised by the Committee, present this Forty-fourth Report on action taken by Government on the recommendations contained in the Thirty-third Report of the Committee (Fifteenth Lok Sabha) on Demands for Grants (2011-12) of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment).

2. The Thirty-third Report (15th Lok Sabha) was presented to the Hon'ble Speaker on 30th June, 2011 and presented to Lok Sabha/laid in Rajya Sabha on 2 August, 2011. Replies indicating action taken on all the recommendations contained in the Report were furnished by the Government on 7 September, 2011.

3. The Committee considered and adopted this report at their sitting held on 19 December, 2011.

4. An analysis of action taken by Government on the recommendations contained in the Thirty-third 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;
19 *December,* 2011
28 *Agrahayana,* 1933 *(Saka)*

YASHWANT SINHA,
Chairman,
Standing Committee on Finance.

CHAPTER I

REPORT

This Report of the Standing Committee on Finance (Fifteenth Lok Sabha) deals with action taken by Government on the observations/ recommendations contained in their Thirty-third Report on Demands for Grants (2011-12) of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment) which was presented to Hon'ble Speaker on 30 June, 2011, Lok Sabha on 2 August, 2011 and simultaneously laid in Rajya Sabha on the same day.

2. The Report contained 16 recommendations. Action taken notes have been received from the Government in respect of all the recommendations contained in the Report. These have been categorised as follows:

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

Recommendation Nos. 1, 2, 4, 5, 6, 11, 12, 13, 14, 15 and 16

(Total : 11)
(Chapter II)

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

Nil

(Total : Nil)
(Chapter III)

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

Recommendation Nos. 3, 7, 8, 9 and 10

(Total: 5)
(Chapter IV)

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

Nil

(Total : 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. Inflation

Recommendation (Sl. No. 3)

5. The Committee recommended that the Government should take specific policy measures coupled with strong enforcement action to tackle inflation, which if left unattended, would leave an adverse impact on the economy in all its dimensions including a negative impact on growth.

6. In action taken reply, the Ministry, while listing out some of the important fiscal and administrative measures that have been reportedly taken by the Government, have *inter-alia* stated that:—

> "….As part of the monetary policy review stance, the RBI has taken suitable steps with 12 consecutive increases in policy rates and related measures to moderate demand to levels consistent with the capacity of the economy to maintain its growth without provoking price rise. As per the most recent announcement of the RBI on 16 September 2011, the repo rate and reverse repo rate have been revised to 8.25 per cent and 7.25 per cent respectively.
>
> An Inter-Ministerial Group (IMG) has been constituted to review the overall inflation situation, with particular reference to primary food articles. It is also addressing possible steps to improve marketing and retailing, competition, and supply-chain improvements, including improvements in the functioning of government regulated mandis that sometimes prevent retailers from integrating their enterprises with the farmers".

7. The Secretary, Ministry of Finance (Department of Economic Affairs) who deposed before the Standing Committee on Finance on 18 November, 2011 stated, among other things, that:—

> "…..at the supply side of the GDP, growth in 2005, 2006, 2007 and 2008 was strong on account of high growth in all the three sectors like the agriculture, services and industry. In the last three years, this has not grown in tandem. So, in 2010-11, overall GDP growth was lower than the pre-crisis levels but only on account of the

less than adequate growth in industry and also services in the last two quarters…….the growth rate for this year is going to be …….around eight per cent or so".

8. The Chief Economic Adviser, Ministry of Finance (Department of Economic Affairs) *inter-alia* informed the Committee during their sitting held on 18 November, 2011 as under:—

"…..Around a year ago, around this time, I along with several others were predicting that inflation is now going to go down very steadily and personally feel bad that forecast has gone wrong. It did not happen. However, once we go into the causes, there is some reason to believe that it was not really triggered by policy mistakes. There was initially, when the inflation while going down through most of last year, picked up a little bit around November-December. It was onions which caused it. But soon after that the global situation fed into this and the overall inflation did not go up but from then onwards it is holding more or less steady. Between nine and ten per cent per annum is the rate at which the inflation is taking place in the country. There were two global factors. One is global commodities…….The other was global liquidity…..

…… the two sides of the inflation,……a supply side and a demand side. It is the mismatch of the two. There is an Inter-Ministerial Group on Inflation to give suggestions on both and policies have been attempted on both………….

………there is no clear formula about how quickly interest rates should be raised and how quickly we should mop up liquidity, which is Reserve Bank of India's domain, and how quickly we should go in for fiscal consolidation, which is the Ministry of Finance's domain. We tried to do this in a calibrated fashion moving on both fronts. Yes, the inflation is high, but it has remained in single digit for a long-enough time from last year and if I may once again risk a little bit of forecasting, we are expecting that December inflation figure, which we will get in January to begin to slope off and food inflation in particular may taper off from the last week of December….

………At the same time, whether or not global factor cause it, I know that Inflation hurts".

9. Industrial growth trajectory for the period from October, 2010 to October, 2011 is given below:

(In %, base 2004-05 = 100)

Month & Year	Growth
October, 2010	11.3
November, 2010	6.4
December, 2010	8.1
January, 2011	7.5
February, 2011	6.5
March, 2011	8.8
April, 2011	5.3
May, 2011	6.2
June, 2011	9.5
July, 2011	3.7
August, 2011	3.6
September, 2011	1.9
October, 2011	-5.1

10. According to media reports, the Chairman, Prime Minister's Advisory Council has commented on declining Index of Industrial Production (IIP) that somewhat lower growth in industrial production was expected, but not a negative growth.

11. The Committee had alerted the Government in their earlier Report on the subject that inflation, if left unattended without specific policy measures coupled with strong enforcement action, would adversely impact the economy in all its dimensions including a negative impact on growth. However, it is evident that the measures taken by the Government/the Reserve Bank of India (RBI) so far have squarely failed to rescue the economy from unabated inflation. Instead, the monetary measures initiated for this purpose have only resulted in worsening the condition of the economy further; growth has declined to 6.9 per cent in second quarter from 7.7 per cent of first quarter in 2011 with expected sharp fall in growth to 7.25–7.75 per cent in 2011-12 as against the estimated 9 per cent; declining monthly industrial production from 11.3 in October, 2010, 5.3 in April, 2011, 1.9 in September, 2011 which further slumped to an unprecedented negative growth (-) 5.1 in October, 2011. On the inflation front, no relief seems to be in sight either. Thus, the Committee cannot but be apprehensive that the economy may face the ominous impact of stagflation, if urgent steps are not taken by the Government to address the situation.

12. The Committee also note that Wholesale Price Index (WPI) on food articles had kept rising at a slower pace, but in December 2010, it suddenly ballooned. The index on 27 November, 2010 was 181.8; it went up to 183.9 on 4 December, 2010; 187.6 on 11 December, 2010; 189.5 on 18 December, 2010 and 196.6 on 25 December, 2010. Against such a backdrop, the Committee take note of the forecast of the Government that the inflation, especially food inflation, would start moderating from December, 2011, and come down to about 7 per cent by March, 2012 and wonder whether it is dependent only on base effect or there will be a real moderation in prices.

13. The Committee further note that repeated forecasting of inflation by different arms of the Government such as the RBI, the Ministry of Finance, the Planning Commission and the Prime Minister's Economic Advisory Council's not only went wrong but even the expectation of the Government, according to the Economic Survey 2010-11, that there will not be a serious downturn in industrialized nations, or a double dip recession being a very low probability, proved to be inaccurate. Ironically, the Mid-Year Analysis (2011-12) of the economy has pronounced the economic slowdown similar to global financial crisis in late 2008. It is, thus, obvious that the Government has got it wrong, particularly on the inflation front.

14. The Committee cannot but deplore the lackadaisical approach of the Government towards inflation in particular and economic growth in general. The lack of coordination between the concerned Ministries/Departments is palpable and it appears that the Inter-Ministerial Group on inflation is becoming redundant. In this context, the Committee would like to reiterate their earlier recommendation made in their Sixth Report on the subject "Inflation and Price Rise", that the Government should consider setting up of a single nodal agency to deal with all the issues related to inflation and price rise. The Committee would also strongly recommend that the Government must come up with a sector specific crisis management plan in this regard and implement the same with strong commitment in a time-bound manner. The Committee would like to be apprised of action taken in this regard.

B. Budgetary Reforms

Recommendation (Sl. Nos. 4 and 5)

15. The Committee desired the Government that as there were still several areas which require reforms to bring more transparency in the budgetary process and fixing accountability, such as classification of

expenditure, uniformity in expenditure allocations throughout the year, delineation of savings resulting from economic use of resources or due to inaction on the part of parent Ministry/Department in not implementing/delaying projects/schemes, distinction of 'savings' from 'surrenders' made, under/non-utilisation of funds etc.

16. In their action taken reply, the Ministry have stated that the observations of the Committee have been noted.

17. The Ministry have been informed of the procedures that should be followed in furnishing action taken replies on the recommendations contained in the Reports of the Committee, which included that replies are comprehensive and are not inconclusive, vague or couched in general terms like 'Noted' or 'Accepted' etc. The Committee, however, find from the action taken reply, that the Ministry have failed to adhere to this procedure and have merely chosen to routinely state that "the observations of the Committee relating to budgetary reforms have been noted". The Committee view this approach very seriously and would expect the Ministry to be more careful and avoid such kind of replies in future. They would expect the Ministry to implement the budgetary reforms in the areas as recommended by them in the forthcoming budget 2012-13 itself.

C. Rate of Interest on General Provident Fund

Recommendation (Sl. No. 6)

18. The Committee desired to review the rate of Interest on General Provident Fund (GPF), which is pegged at 8%, so that government employees are not put to any disadvantage more so now when the interest rate for bank deposits have also been raised.

19. The Ministry in their action taken reply have submitted that the rate of Interest on General Provident Fund and other similar funds are under examination.

20. The Committee note that the rates of interest of various funds similar to General Provident Fund (GPF) have been recently raised by the Government based on the recommendations made by the Shyamala Gopinath Committee. The Committee are, however, dismayed that rate of interest to GPF has not yet been raised. As any further delay would cause avoidable disadvantage to the government employees, the Committee hope that the Government would take an early decision in this regard.

D. Expanding Banking Services

Recommendation (Sl. No. 7)

21. Although RBI had initiated measures to strengthen Banking Correspondents/Facilitators (BCs/BFs), the efficacy of BCs/BFs model in extending branchless banking is unreliable. The Committee, therefore, urged the Government/RBI to critically review the performance of BCs/BFs to develop them as a viable source of expanding banking network in remote and inaccessible areas. Further, the Committee desired that banks should treat BCs as a 'service centre' not as a mere 'cost centre'.

22. The Committee also desired that banks should have a sub-division of lending targets for different categories of weaker sections under priority sector lending, so that all sections/categories are evenly covered in financial inclusion. Such a sub-category should also include the extent of coverage of the economically disadvantaged among minorities. Similarly, time-bound targets should also be fixed for the village adoption scheme of banks.

23. In their action taken note, the Ministry have stated the features of the revised guidelines issued by the RBI on 28 September, 2010 for engaging BCs. The reply has further stated that:—

> "……..keeping in view the goal of bringing banking services to identified about 73,000 villages with population above 2000 by March 2012, and thereafter progressively to all villages over a period of time, banks have been advised by the RBI in July, 2011, that while preparing their Annual Branch Expansion Plan (ABEP), they should allocate at least 25 per cent of the total number of branches proposed to be opened during a year in unbanked rural (Tier 5 and Tier 6) centres….".

24. Regarding sub-division of priority sector lending targets, the Ministry have stated as follows:—

> "The target of 10% of Adjusted Net Bank Credit (ANBC) for weaker Sections is beneficiary oriented and subsumed in overall target of priority sector lending. It may not be therefore practical to fix and monitor category-wise and Sector-wise progress. It is therefore not possible to fix sub-targets for each category of weaker sections. The sub-category of the weaker section of the priority sector lending *inter-alia* includes persons from minority community. The RBI has further reported that a Committee has been constituted to re-examine the existing classification and suggest revised guidelines with regard to priority sector lending classification".

25. The Committee have been consistently emphasizing for critical evaluation of Business Correspondents/Business Facilitators (BCs/BFs) model in providing branchless banking and, thereby, achieving financial inclusion. The Government have, however, hesitated to evaluate the model but have only sought to bring in a few changes in a piece-meal manner. The Committee observe that even after lapse of five years since its inception in 2006, the BCs/BFs model has failed to gain the impetus in changing the face of financial inclusion as anticipated by the Government, owing to limitations such as credit, operational, legal and reputation risks faced by banks in engaging large number of BCs, low volume of business generated by BCs and costs associated with low volume small value transactions and lack of acceptance by major PSU banks, private sector/foreign banks. The Committee feel that instead of venturing into frequent tinkering with the BCs/BFs model, conducting an evaluation/viability study of BCs/BFs model is the need of hour, so that comprehensive corrective course of action can be taken in achieving financial inclusion. The Committee, therefore, while reiterating their recommendation that the Government/RBI should critically evaluate the BCs/BFs model, recommend the Government to explore other viable alternatives such as utilising the services of postal network in achieving financial inclusion to a greater extent.

26. The action taken reply furnished by the Ministry that it is not possible to fix sub-targets for each category of weaker sections under 10% of Adjusted Net Bank Credit (ANBC) is not acceptable, as it may deprive them of their entitlements towards financial inclusion. Moreover, in the absence of sub-division of targets, it would be very difficult to monitor and plan the economic progress of each category of weaker sections. The Committee constituted by the RBI to re-examine the existing classification of priority sector lending should look into this issue and reclassify suitably so that all sections/categories of weaker sections are evenly covered in financial inclusion.

27. The action taken reply is silent on the recommendation of the Committee in regard to fixing of time-bound targets for the village adoption scheme of banks. Instead, the Ministry have furnished the target of covering unbanked villages by banks as March, 2012. The Committee would like to be apprised of the specific action taken on the recommendation of the Committee within a period of one month.

E. Review & Reconstitution of District Level Consultative Committee

Recommendation (Sl. No. 8)

28. Keeping in view of crucial role of District Level Consultative Committee (DLCC) and the need to function more effectively to become the main instrument of implementing policies and planning, the Committee recommended review of the functioning of DLCC and its re-constitution and make the MP of the area to head the same.

29. The Ministry have furnished, among other things, in their action taken reply as under:—

> "……The District Collector functions as the Chairman of District Level Consultative Committee (DLCC) or District Consultative Committee (DCC).
>
> Apart from convening DCC meetings, one meeting of DCC every year was held as a District Level Review Meeting (DLRM) with a view to evaluating the progress made in the implementation of schemes included in DCP/ACP. The Working Group to Review the Working of the Lead Bank Scheme……….recommended that the frequency of these meetings may be increased, as also designate this forum as District Level Review Committee (DLRC) to reflect the nature of its functioning. Accordingly, DLRM was renamed as DLRC and has been constituted as a separate forum. RBI has advised lead banks that the DLRC meetings should be convened on quarterly basis by the lead bank and invariably invite MPs/ MLAs and Zilla Parishad Chiefs to participate in these meetings. All Lead Banks have also been advised by the RBI to fix the dates of DLRC meetings with due regard to MP's convenience".

30. As per the action taken reply, apart from functioning of District Level Consultative Committee (DLCC) under the chairmanship of District Collector, a separate forum namely, District Level Review Committee (DLRC) has been constituted, following the recommendation of the Working Group to Review the Working of the Lead Bank Scheme. The reply is elusive in regard to recommendation of the Committee to make MP of the area to head the District Level Committee. It is the Committee's view that restricting the MP, representative of the people of the District, to mere participation in review meeting will not serve the purpose. The Committee believe that designating MP of the District as the Head would build confidence among the people for their financial inclusion. It would further facilitate in removing all practical and

procedural complexities in implementing policy and planning at the district level. The Committee, therefore, reiterate their recommendation to re-constitute the District Level Review Committee (DLRC) while making MP of the area to head the same.

F. Lending to agriculture and weaker sections

Recommendation (Sl. Nos. 9 and 10)

31. The Committee took note of the fact that while banks are still short of achieving required agricultural lending, many of them have shown greater propensity to disburse indirect agricultural credit. Though the Government had stated to have taken several measures to increase agricultural lending, they had still failed to persuade banks to achieve the desired percentage of lending.

32. Further, while noticing that performance of private sector banks was very poor as they achieved only 5.48% of the weaker section lending *vis-à-vis* the required 10 per cent, the Committee expected the RBI to ensure that private sector banks also fulfil their social mandate.

33. In their action taken reply, the Ministry have stated, among other things, the following:—

"Increasing the flow of agriculture credit to farmers is a priority to the Government of India…………… The flow of credit to agriculture and allied activities since 2003-04 is as under:

Year	Target	Achievement (amount in crore)
2003-04	—	86,981
2004-05	1,05,000	1,25,309
2005-06	1,41,000	1,80,486
2006-07	1,75,000	2,29,400
2007-08	2,25,000	2,54,657
2008-09	2,80,000	3,01,682
2009-10	3,25,000	3,84,514
2010-11	3,75,000	4,46,779
2011-12	4,75,000	1,12,731.07 (achievement upto 30th June, 2011)

…….In addition, it may be seen that in gross terms the direct agriculture lending by both the Public Sector Banks and Private Sector Banks has grown rapidly during the last 4 years:

Year	Direct Agriculture Lending (in crore)	
	Public Sector Banks	Private Sector Banks
2006-07	1,45,409.48	28,243.23
2007-08	1,76,759.60	37,390.65
2008-09	2,15,634.72	46,509.54
2009-10	2,65,071.17	52,110.94

Source: RBI

……The flow of credit to agriculture is steadily growing. However, some Banks are unable to achieve the given targets of share to agriculture credit. There are several factors that determine the achievement of the priority sector lending targets to the agriculture sector. Lending by the Banks depends upon a number of factors including its physical presence, climatic and other factors, the main economic activities in their service areas. This is also influenced by the base effect, *i.e.,* the growth in overall credit *vis-a-vis* credit flow to agriculture. As private sector banks have a predominant presence in urban and semi-urban areas, it is getting reflected in their lending operations. It may be noted that the lending to agriculture sector by Private Sector Banks has been steadily rising.

The Domestic Scheduled Commercial Banks, including Public & Private Sector Banks, which fail to achieve their priority sector targets/sub-targets, are required to deposit their lending shortfall through the RBI (as per the annual allocation made by the Government of India) to the various Funds created by Government of India in National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI) and National Housing Bank (NHB).”

34. On the issue of shortfall in lending to weaker sections by private sector banks, the Ministry in their action taken reply have, among other things, stated that:—

“……..As reported by the RBI, data on lending by Private Sector Banks to weaker sections as on the last reporting Fridays of March 2008, 2009, 2010 and 2011 is given as under :

Year	Amount Outstanding (Rupees crore)	% of ANBC or CE of OBE, whichever is higher, as on March 31 of the previous year
2008	7,152.29	2.10
2009	15,832.31	3.89
2010	25,686.03	5.45
2011	30,077.69	5.64

It may be observed from the above that Private Sector Banks as a group were not able to achieve the target of 10% of ANBC or Credit Equivalent (CE) amount of Off-Balance Sheet Exposures (OBE), whichever is higher, as on March 31 of the previous year. However, the performance of Private Sector Banks in lending to weaker sections in absolute as well as in percentage term has shown increasing trend over the years. The RBI has, further, reported that the banks which fail to achieve the priority sector targets have to contribute to Rural Infrastructure Development Fund (RIDF)/other Funds as disincentive measures.

As per RBI data out of 21 Private Sector Banks, 15 Banks have not been able to achieve the stipulated target of 10% for lending to weaker sections under Priority Sector Lending as on last reporting Friday of March, 2011. These 15 private sector banks have been advised, *vide* letter dated 1st September, 2011, to pay special attention to this aspect. They have also been advised to ensure that the guidelines of the RBI on Priority Sector Lending are implemented in letter and spirit and the same may be brought to the knowledge of the Board of the Bank."

35. The Committee are constrained to note that banks, particularly those in the private sector, have failed to meet the mandatory level of priority sector lending particularly to agriculture and weaker sections. In the action taken reply, the Ministry have *inter-alia* submitted that the banks which failed to achieve their priority sector targets/sub-targets are required to deposit their lending shortfall through the RBI, as per the annual allocation made by the Government, to the various funds created by the Government in National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI) and National Housing Bank (NHB). This may be one of the reasons for the current agricultural crisis, as the practice of diverting funds, meant for

agriculture, deprives the farmers in accessing loans for agriculture and are forced to approach the moneylenders. The Committee in their earlier reports expressed their concern that such diversion of lending shortfall funds is neither tenable nor acceptable. The Committee are of the view that since 60-65 per cent of people depend on agriculture in the rural areas and the contribution of agriculture to GDP is less than 15 per cent, there is a compulsion to infuse agriculture with adequate funds. The Committee, therefore, recommend the Government to create a corpus with funds allocated from the lending shortfall by banks and to spend it exclusively for the purpose originally intended. They also recommend that the lead banks should factor-in inflation and rising cost of inputs before extending advances to farmers.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS, WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation (Sl. No. 1)

Under-utilisation of funds under major State Plan Schemes

A provision of Rs. 1,30,365 crore had been made in Budget 2011-12 for the major State Plan Schemes. It was a matter of serious concern for the Committee that huge amounts of shortfall *vis-a-vis* the Budget Estimates had been reported for the years 2009-10 and 2010-11 (Rs. 6580.21 crore and Rs. 8392.77 crore respectively) in respect of grants transferred to States and UTs under these major Plan Schemes such as Accelerated Irrigation Benefit Programme, National Social Assistance Programme, Jawaharlal Nehru National Urban Renewal Mission, Sub- Mission on Basic Services to Urban Poor and Integrated Housing and Slum Development Scheme. Similarly, large shortfalls had also been reported — Rs. 1841.47 crore in 2007-08, Rs. 4456.57 crore in 2008-09, Rs. 2624.93 crore in 2009-10 and 339.23 crore in 2010-12 — in respect of major non-Plan Schemes as well. According to the Ministry, such shortfall occurs when the line ministries were unable to recommend releases to the full extent of available funds on account of non-fulfilment of requirements by States. The Committee desired that the Ministry of Finance should urgently take up this matter with the line Ministries with a view to reviewing these unutilised grants instead of providing for the year after year routinely without any reference to its utilisation. The Committee would not like a situation where grants remain confined to the budget document without showing visible results on the ground. The Ministry of Finance should, therefore, set up internal monitoring mechanism, whereby quarterly review meetings might be convened involving both the line Ministries and the State Governments so as to keep close vigil and to ensure a much better utilisation of funds. In this context, the Committee drawn the attention of the Government to a contrasting situation being witnessed with regards to central funds which were shown as fully utilised for budgetary purposes without any visible outcomes on the ground. The Committee recommended that the Ministry of Finance should sensitize the line Ministries in this regard so that the proposals formulated by them are more sharply focused on the results. They should also avoid expending major chunk of allocation towards the end of the year while ensuring spreading of expenditure evenly through the year.

Action Taken by the Government

1. Schemes of financing for States' Annual Plans are finalised through consultation among the Planning Commission, the State Governments and the line Ministries, based on assessment of the fund requirement for various State sector plan schemes. Allocations for central assistance to States under State sector plan schemes are made in Demand 35 of Ministry of Finance, which releases assistance on the recommendations of line Ministries or the Planning Commission. The role of Ministry of Finance is to ensure that funds are released upon fulfilment of the requirements under the scheme, and appropriate physical and financial progress by the States. Fulfilment of these requirements is assessed by line Ministries based on monitoring by their field-level organisations and credible information from States. The overall objective is to provide timely central assistance to ensure application of funds for the intended purpose and minimise the scope for parking of funds. Savings occur when the States are unable to fulfil the eligibility criteria prescribed under the relevant scheme for release of funds, including having unspent balances from earlier releases.

2. Under JNNURM, releases are made against allocations on the basis of assessment of implementation of the sanctioned projects and scheme-linked reforms by the States and Urban Local Bodies (ULBs). The reform agenda is taken seriously so that capital assets created can be adequately maintained.

3. In the case of projects under the Accelerated Irrigation Benefits Programme (AIBP), release of central assistance to State Governments is based on the line Ministry's recommendations linked to physical and financial verification of progress. While releasing funds, care is taken to ensure that the State concerned is in a state of readiness to absorb funds, so that there is little likelihood of parking of funds.

4. A Central Plan Scheme Monitoring System (CPSMS) has been put in place to minimize unspent balances with guarantee bodies and improve monitoring of available budgetary resources at the stage of pre-budget discussions. The system tracks plan fund releases to the State Governments and implementing agencies.

5. Instructions for expenditure management are issued from time to time, the recent-most having been issued on 11 July 2011..... In accordance with instructions, not more than one-third (33%) of the allocated amount in Budget Estimates may be spent in the last quarter of the financial year and not more than 15% of the allocated amount

may be expended during the month of March. The implementation of these instructions is reviewed with line Ministries/Departments, usually in two meetings in a year, taken by the Finance Minister and the Secretary, Expenditure. Secretary Expenditure also holds meetings with all Departments, to review expenditure and assess need for finance in the remaining part of the year about October, before the second supplementary stage. Henceforth, it is proposed to hold meetings with the Financial Advisers of line Ministries, in the remaining quarters, to ensure that the expenditure flow is even during the entire financial year, budgetary allocations are utilized within the parameters of scheme guidelines and recommendations for release are linked to physical progress of the projects to ensure visible outcome.

6. There are several annual interfaces between Finance Ministry and State Governments where discussions will be held on expenditure management, on both the plan and non-plan transfers to States. A pre-budget meeting with State Finance Ministers is chaired by the Union Finance Minister. The Union Finance Secretary also holds discussions with representatives of State Governments in an annual meeting. Another annual meeting of State Finance Secretaries and Union Finance Ministry officers is convened by the Reserve Bank of India.

[Ministry of Finance, Department of Expenditure, Plan Finance-I Division OM No.49(41)PF.I/2009 dated 7th Sept., 2011]

Recommendation (Sl. No. 2)

Inflation

From the submissions of the Chief Economic Advisor, it was found that while in April, 2010, the WPI index was 11%, it came down to 8.31 per cent in April this year. However, the Ministry, in their replies had admitted that this fall had been managed by changing the base year. Nevertheless, the food index which was at 6.45 per cent in April, 2011 continues to be a major component of overall inflation. Although the Ministry had stated that food index in CPI-IW and in WPI were guiding factors in formulation of Government policy and management of food economy, the Committee were surprised to note that the approach of the Government in redefining these indices had been piecemeal in as much as while base year for WPI has been changed to year 2004-05, year 2001 was still used as base year for CPI-IW. This clearly showed that contradictory scenarios emerging from these indices were being used for policy formulation, which obviously could not thus be expected to yield the desired results of curbing inflation. Since it was not the wholesale prices, but retail prices represented by CPI which was more affecting the common man, the Committee recommended the Government to formulate a more representative CPI on an urgent basis, which would reflect more accurately the prevailing inflationary trend.

Action Taken by the Government

New Series of CPI

The Central Statistics Office (CSO), Ministry of Statistics and Programme Implementation has introduced a new series of Consumer Price Indices (CPI) on base 2010=100 for all-India and States/UTs separately for rural, urban and combined with effect from January, 2011. CPI (Urban) covers 310 towns while CPI (Rural) covers 1181 villages in the country. The weighting diagrams for the new CPI series have been derived on the basis of average monthly consumer expenditure of an urban/rural household obtained from the NSS 61st round Consumer Expenditure Survey data (2004-05). The annual inflation rates would be available at the time of release of indices for January, 2012, when the indices for one year are available.

[Ministry of Finance (Department of Economic Affairs)
OM No. 5(16)Ec.Dn./2011 Dated 20.11.2011]

Recommendation (Sl. No. 4)

Budgetary Reforms

The Committee noted that the Government had initiated budgetary reforms by making expenditure corresponding to outcome. While comparison with actual expenditure during budgeting/planning of future expenses is a necessary input, the Committee noted that there were still several areas which require reforms to bring more transparency in the budgetary process and fixing accountability, such as classification of expenditure, uniformity in expenditure allocations throughout the year, delineation of savings resulting from economic use of resources or due to inaction on the part of parent Ministry/ Department in not implementing/delaying projects/Schemes, distinction of 'savings' from 'surrenders' made etc.

Action Taken by the Government

The observations of the Committee have been noted.

[Ministry of Finance (Department of Economic Affairs)
OM No. 5(16)Ec.Dn./2011 Dated 20.11.2011]

Comments of the Committee

(Please *see* Para No. 17 of the Chapter-I)

Recommendation (Sl. No. 5)

From the submission of the Finance Secretary, the Committee found that classification of revenue and capital expenditure was not properly reflected in the Union Government accounts as grants given to States for onward incurring of capital expenditure were shown as revenue expenses in the account of Government of India. The Committee believed that such accounting creates only avoidable confusion and was not reflective of actual budgeting. Therefore, Government must initiate measures to review the existing classification of expenditure to better project the expenditure and reflect the policies accurately. Further, the Committee were surprised to find that there was no accurate system to capture the savings/surrenders which result from non-implementation of intended plans/schemes. The existing system of reflecting savings was very vague and did not fix accountability of the delinquent Ministry/Department. In view of the Committee, savings was a misnomer as most of it related to inefficient planning and ineffective monitoring. Thus, it would be more appropriate if the three heads, namely, savings, under/non utilization and surrender of funds were clearly segregated in the budget. This would also help the Government in more efficient re-allocation of available funds.

Action Taken by the Government

The Committee were apprised earlier during the oral evidence of the budgetary process at the time of mid-year review including identification of savings in one grant and provision of additional expenditure in other grant through supplementary demands for grants. Thus, the observations of Committee have been noted.

[Ministry of Finance (Department of Economic Affairs)
OM No. 5(16)Ec.Dn./2011 Dated 20.11.2011]

Comments of the Committee

(Please *see* Para No. 17 of the Chapter-I)

Recommendation (Sl. No. 6)

Rate of Interest on General Provident Fund

The Committee note that the rate of interest on Employees Provident Fund has been 9.5%. The Committee desire that rate of Interest on General Provident Fund (GPF), which is pegged at 8%, may also be reviewed so that government employees are not put to any disadvantage more so now when the interest rate for bank deposits have also been raised.

Action Taken by the Government

The Rate of Interest on General Provident Fund and other similar funds are under examination.

[Ministry of Finance (Department of Economic Affairs)
OM No. 5(16)Ec.Dn./2011 Dated 20.11.2011]

Comments of the Committee

(Please *see* Para No. 20 of the Chapter-I)

Recommendation (Sl. No. 11)

Differential Rate of Interest Scheme

The Committee found that the performance of banks under Differential Rate of Interest Scheme (DRI Scheme), intended for weaker sections, to be not very encouraging. As against the stipulated 1 percent lending under the scheme, the banks had achieved only 0.05%, 0.04% and 0.04% in the last three years. The reason for low disbursement is stated to be availability of other more attractive Government Sponsored schemes. The Committee recommended that this scheme should be reviewed to make it more attractive for availing loan by intended groups under this scheme.

Action Taken by the Government

Reserve Bank of India (RBI) and Indian Banks' Association have been advised to suggest modifications in the guidelines of the Differential Rate of Interest Scheme (DRI Scheme) so that it could be made more attractive and implemented in an effective manner.

[Ministry of Finance (Department of Economic Affairs)
OM No. 5(16)Ec.Dn./2011 Dated 20.11.2011]

Recommendation (Sl. No. 12)

Debts Recovery Tribunals

Debts Recovery Tribunals (DRTs) were established with a view to ensuring fast adjudication and recovery of non-performing assets. However, from the data furnished to the Committee, it was found that these tribunals had not been very effective in speedy disposal of cases. Since the year 2006-07 to year 2010, the number of cases pending with DRTs had grown from 25,268 to 37,616 cases. However the Ministry were merely deriving satisfaction that in the year 2010, the number of cases disposed of by DRTs had increased as against the year 2006-07. The Committee further noted that DRTs were facing several problems such as acute shortage of personnel, lack of proper training of officers and staff taken on deputation and submission of incomplete cases/applications by banks and financial institutions etc. The Committee were inclined to believe that the Government became apathetic to the functioning of the DRTs. The Committee recommended that the Government should immediately conduct a thorough review of the functioning of the DRTs with a view to making them more vibrant and purposeful. The Committee should be apprised of the steps taken in this regard within one month.

Action Taken by the Government

The Central Government has established 33 Debts Recovery Tribunals (DRTs) and 5 Debts Recovery Appellate Tribunals (DRATs) established all over the country under the provisions of the Recovery of Debts due to Banks and Financial Institutions Act, 1993 for expeditious adjudication and speedy recovery of debts due to banks and financial institutions and matters connected therewith. The Government does not interfere in the judicial functions of DRTs and DRATs.

This Ministry has taken a number of steps to improve the functioning of these Tribunals:—

(i) In order to fill up the vacant posts in DRTs/DRATs the following steps have been taken:

- The meeting of the Selection Committee for selection of candidates for filling up two vacancies Chairpersons of DRATs in Delhi and Mumbai has been convened on 9.7.2011 and the proposal has been processed for approval of the Government.
- The meeting of the Selection Committee for selection of 5 candidates for appointment as Presiding Officers in DRTs has been convened on 20.08.2011 and subsequent processes have been initiated for their appointment.
- Advertisement for inviting applications for appointment as Registrar/Assistant Registrar and Recovery Officers in DRTs has been published on 30.07.2011 and the last date for submitting application is 30.09.2011.
- Regular advertisements are being published to select and appoint staff against the vacancies arising at the level of Groups 'B', 'C' & 'D'. Besides, all DRTs/DRATs have been advised to appoint stenographers, Data Entry Operators and Peons through outsourcing agencies against the vacant posts, for short term to partially supplement the requirements of regular staff at such levels.

(ii) Instructions have been issued to all DRTs and DRATs to have internet connectivity.

(iii) A training module is being finalized for imparting induction and refresher training for all officers in DRTs, including exposure programmes for newly selected Presiding Officers and Chairpersons.

(iv) The meetings of Secretary (FS) with Registrars of DRTs/DRATs is to be arranged on regular basis to facilitate smooth functioning of these Tribunals and the first meeting is scheduled to be held in September 2011.

(v) In respect of incomplete cases/applications by Banks and Financial Institutions, these institutions have already been advised through Indian Banks' Association to refer all such cases to DRTs after completing all formalities.

In pursuance of the recommendation of the Standing Committee for conducting a thorough review of the functioning of DRTs, a Committee has been constituted on 30.08.2011 as follows:—

(i)	Dr. T. Ravi Shankar, Chairperson DRAT, Chennai	—	Chairman
(ii)	Sh. S.G. Kulkarni, P.O., DRT, Pune	—	Member
(iii)	Sh. O.P. Verma, P.O., DRT-I, Delhi	—	Member
(iv)	Smt. M.G. Padmini, P.O., DRT, Jabalpur	—	Member
(v)	Sh. S.K. Sharma, P.O., DRT-II, Kolkata	—	Member.

The Committee will undertake a detailed review of the legal, structural, procedural, administrative, monitoring and supervisory system presently being followed by the DRTs/DRATs and recommend long term and short term measures required to make these Tribunals more effective and efficient to achieve the purpose for which these Tribunals were established.

The Committee may co-opt members, if considered necessary, and may specifically consult all stake holders including banks and financial institutions and representatives of lawyers. The Committee will submit its report within two months.

[Ministry of Finance (Department of Economic Affairs)
OM No. 5(16)Ec.Dn./2011 Dated 20.11.2011]

Recommendation (Sl. No. 13)

Repudiation of Insurance Policies

The Committee observed that the number of insurance policies repudiated had increased in the last three years as seen from the data furnished by the Ministry. The Committee were surprised to note that

IRDA did not maintain information on this aspect which is vital for protection of policyholder's interests. The Committee desired to know the reasons for the rising number of repudiated policies in recent years. They recommended that IRDA should carry out an analysis of such policies to establish the reasons and take remedial measures to reduce the instances of policy repudiation.

Action Taken by the Government

Insurance Regulatory and Development Authority (IRDA) has stated that earlier the information relating to repudiation of claims under policies issued by insurance companies was not being Collected routinely but only as and when required. This data was currently being collected on a quarterly basis and is being periodically reviewed. The data earlier furnished for the year 2010-11 did not reflect the data of 5 companies as already mentioned therein. While a gist of the data now collected for the four quarters of the year 2010-11 is given below for Life as well as Non-life companies; the company-wise details are as per statements attached:

Segment	Number of claims repudiated as per standard format now called for by IRDA	Total number of claims repudiated as earlier furnished*
Life	19,754#	19,284
Non-life	7,21,244#	4,61,373
Total	7,40,998	4,80,657

*Excluded one life company and four non-life companies (mainly public sector companies in non-life which have huge business volumes and therefore more numbers).
#Company-wise details are shown below

Repudiated Claims by Life Insurance Companies during the year 2010-11

Life Insurers	Claims repudiated under Group Business	Claims repudiated under Individual Business	Total
	No. of Lives	No. of Lives	No. of Lives
1	2	3	4
AEGON Religare Life Ins. Co.	0	58	58
Aviva Life Ins. Co.	29	277	306
Bajaj Allianz Life Ins. Co.	34	1913	1947

1	2	3	4
Bharti Axa Life Ins. Co.	5	99	104
Birla Sunlife Ins. Co.	6	491	497
Canara HSBC OBC Life Ins. Co.	6	47	53
OLF Pramerica Life Ins. Co.	0	16	16
Future Generali India Life Ins. Co.	2	268	270
HDFC Standard Life Ins. Co.	0	182	182
ICICI Prudential Life Ins. Co.	67	503	570
IDBI Federal Life Ins. Co.	19	88	107
India First Life Ins. Co.	12	34	46
ING Vysya Life Ins. Co.	1	81	82
Kotak Mahindra Life Ins. Co.	47	105	152
Max New York Life Ins. Co.	1299	1344	2643
MetLife Life Ins. Co.	46	111	157
Reliance Life Ins. Co.	9	1410	1419
Sahara India Life Ins. Co.	0	136	136
SBI Life Ins. Co.	767	1678	2445
Shriram Life Ins. Co.	2	407	409
Star Union Dia-chi Life Ins. Co.	9	4	13
Tata AIG Life Ins. Co.	32	714	746
Private Total:	2392	9966	12358
LIC of India	12	7384	7396
Industry Total:	2404	17350	19754

Repudiation of Claims by Non-Life Insurance Companies during the year 2010-11

Name of insurers	No. of claims repudiated during 2010-11
1	2
National Insurance Co.	163,653
New India Assurance Co.	12,244

1	2
Oriental Insurance Co.	8,270
United India Insurance Co.	80,030
Agriculture Insurance Co. Ltd.	0
Export Credit Guarantee Corporation Ltd.	1,056
ICICI Lombard General Insurance Co.	223,167
Star Health and Allied Insurance Co.	110,084
Reliance General Insurance Co.	50,980
Bajaj Allianz General Insurance Co.	0
HDFC Ergo General Insurance Co.	1,320
Iffko Tokyo General Insurance Co.	0
Tata AIG General Insurance Co.	4,642
Royal Sundaram Alliance Insurance Co.	5,643
Shriram General Insurance Co.	4,905
Universal Sompo General Insurance Co.	10,809
Bharti Axa General Insurance Co.	3,787
Cholamandalam MS General Insurance Co.	21,998
Future Generali India Insurance Co.	14,720
Apollo Munich Health Insurance Co.	3,822
Max Bupa Health Insurance Co.	95
Raheja QBE General Insurance Co.	5
L&T General Insurance Co.	7
SBI General Insurance Co.	7
Total:	721,244

However, IRDA has pointed that when it comes to the percentage of claims repudiated to the actual number of claims, it works out to only 1.54% for life insurance and 2.41% for non-life insurance.

An analysis of the data in respect of life insurance claims for the last 5 years shows that the percentage of claims settled out of the total number of claims is consistently around 96% or more. The total number of claims has been increasing in number each year and in spite of this, the percentage of claims paid is high:

Year	Total number of claims	Claims paid		Claims repudiated		Claims pendlnc		Claims written back	
		No.	%	No.	%	No.	%	No.	%
2006-07	774796	748297	96.58	12168	1.57	14331	1.85	—	—
2007-08	740159	712741	96.29	10268	1.39	16777	2.27	373	0.05
2008-09	904758	865635	95.67	14193	1.57	19063	2.11	5867	0.65
2009-10	1071586	1031848	96.29	16213	1.51	17764	1.66	5761	0.54
2010-11	1285759	1234014	95.97	19754	1.54	27888	2.17	4103	0.32

Further, when claims repudiated are correlated to the number of individual policies in force for life insurance, it works out to a mere 0.006%. It is 0.67% in the non-life sector when compared to the number of policies issued.

As regards the overall numbers of repudiated claims increasing, the rise is due to the fact that the sector is expanding rapidly and business volumes are increasing. The number of policies issued by insurance companies is increasing year on year. Over the last 5 years, the number of individual policies issued in life insurance has increased from four and a half crores to five and a half crores. In the non-life sector, the number of policies issued has nearly doubled from five and a half crores to ten crores. Accordingly, the number of claim intimations would also be more and therefore an increase in claim repudiations in numerical terms.

It may also be mentioned that the benefits paid out in life insurance runs into several thousands of crores. In fact, in 2009-10, the total benefits, including death claims paid out in life insurance, was 98578.20 crores. When it comes to number of claims, the number being settled is in fact increasing every year and the following are the figures relating to claims settlement in life insurance and non- life insurance during 2010-11:

Year	No of death claims settled in Life Insurance	Total amount settled (Rs. in crs.)	No of claims settled in Non-life Insurance	Total amount settled (Rs. in crs.)
2010-11	12,34,014	8937	2,55,35,978	37442

In addition to calling for numbers, from the perspective of policyholder protection, IRDA has called for data from all insurance companies relating to the reasons for repudiation, in order to carry out a detailed analysis of repudiated claims, carry out a root cause analysis, identify systemic issues and initiate corrective action, wherever necessary.

Further, IRDA has recently introduced the Integrated Grievance Management System (IGMS) which creates a central repository of the industry complaints database and enables generation and analysis of various types of reports. One of the categories analysed is the complaints relating to claim repudiations and this would help drill down to inherent issues, if any. The database is being built up and the required analysis would be carried out.

[Ministry of Finance (Department of Economic Affairs)
OM No. 5(16)Ec.Dn./2011 Dated 20.11.2011]

Recommendation (Sl. No. 14)

Disinvestment policy

The Committee noted that the Government had been announcing disinvestment of profit making PSUs to generate revenue and to finance a part of its social expenditure programme. They found that last year, a target of Rs. 40,000 crore was fixed to be procured through disinvestment. However, subsequently this target was revised, as additional resources were raised through other avenues. The Committee found that this year, the Government had re-scheduled its target and again a target of Rs. 40,000 crore had been fixed to be received as disinvestment proceeds.

Action Taken by the Government

The disinvestments in CPSEs is pursued as per the policy in this regard to develop 'People ownership' of CPSEs and the revenue thus generated is used in selected social sector programmes of the Government.

[Ministry of Finance (Department of Economic Affairs)
OM No. 5(16)Ec.Dn./2011 Dated 20.11.2011]

Recommendation (Sl. No. 15)

The Committee observed that the disinvestment policy of the Government was principally governed by the motive of revenue generation instead of a rational policy to offload Government stake in public sector undertakings. This shows adhocism in Government policy towards disinvestment.

Action Taken by the Government

The thrust of the disinvestments policy is the development of "People Ownership" of CPSEs to share their wealth and prosperity, while retaining ownership and control with Government. Thus, the motive of the policy is not revenue generation.

The approach to disinvestment is that—

(i) already listed profitable CPSEs not meeting the mandatory public shareholding of 10% are to be made complaint;

(ii) all unlisted CPSEs having positive net worth, no accumulated losses and having earned net profit for three preceding consecutive years, are to be listed through public offerings out of Government shareholding or issue of fresh equity by the company or a combination of both;

(iii) further public offerings by listed CPSEs taking into consideration their capital investment requirements with Government of India simultaneously or independently offering a portion of its shareholding in such CPSEs;

(iv) Each CPSE has different equity structure, financial strength, fund requirement, sector of operation, etc.; factors that will not permit a uniform pattern of public offerings. Therefore, individual public offerings are to be considered on merit and on a case by case basis including linkage of offers for sale with fresh public offerings, wherever possible;

(v) Retaining at least 51 per cent equity and management control in all cases of disinvestment through public offer.

Based on the above factors while approving the disinvestments policy it was a conscious decision that all cases of disinvestments will be decided on case- by-case basis. Thus, there is no ad-hocism as has been observed by the Committee. However, the matter of constituting a High Power Committee to formulate an annual action plan to avoid ad-hocism is under examination.

[Ministry of Finance (Department of Economic Affairs)
OM No. 5(16)Ec.Dn./2011 Dated 20.11.2011]

Recommendation (Sl. No. 16)

While the policy direction for profit making PSUs was to offload Government stake, no concrete policy had been formulated with respect to loss making PSUs. They had been simply referred to Board for

Reconstruction of Public Sector Enterprises (BRPSE) functioning under Department of Public Enterprises for revival. The Committee, therefore, recommended that Government should formulate Disinvestment policy with clear direction and vision encompassing all categories of public sector undertakings.

Action Taken by the Government

The thrust of the disinvestment policy being "People Ownership" to share their wealth and prosperity of CPSEs; the shares of profitable CPSEs only will command confidence of the investor community and the public. The shares of loss making CPSEs would neither evoke investors' interest nor they can share the wealth (already depleted due to losses), therefore the efforts would continue to revive CPSEs through BRPSE, to facilitate their transition, into profitability before they become eligible for listing. The CPSEs which are not revivable are taken up on a case-by-case basis for decision either to close down or to disinvest them to strategic partners. On these basis, the Government has decided disinvestments of 100 per cent equity in favour of a strategic partner in cases of Scooters India Limited, Tyre Corporation of India Limited and Central Inland Water Transport Corporation Limited.

[Ministry of Finance (Department of Economic Affairs)
OM No. 5(16)Ec.Dn./2011 Dated 20.11.2011]

CHAPTER III

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

NIL

CHAPTER IV

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

Recommendation (Sl. No. 3)

Inflation

From the submissions of the Chief Economic Advisor, the Committee observed that the Government "accepts additional two percent of inflation as corollary of economic growth." Though the Government had taken measures to bring down prices, their inadequacy was well reflected in RBI's outlook on inflation, which showed that there were several upside risks to inflation such as risk of persistent high food inflation spilling over to the general inflation including the manufacturing sector. The Committee cautioned that there was thus no room for complacency to treat the issue of rising prices as simply growth related and arising out of increasing per capita incomes. Specific policy measures coupled with strong enforcement action was thus urgently called for to tackle inflation, which if left unattended, would leave an adverse impact on the economy in all its dimensions including a negative impact on growth.

Action Taken by the Government

Food inflation has dropped from a peak of 22 per cent in February 2010 to about 9.06 per cent in August 2011. The Government is working closely, together with RBI, to take all appropriate steps to reduce inflation to more comfortable level. Some of the important fiscal and administrative measures are given below:

Fiscal and Administrative Measures:

- Import duties reduced to zero on pulses, onion, edible oils (crude), and to 7.5 per cent on refined and hydrogenated oils and vegetable oils;
- The export of all varieties of onions is prohibited w.e.f. 9th September, 2011 till further orders.
- Import of raw sugar allowed at zero duty under open general licence (OGL).

- Allowed STC/MMTC/PEC and NAFED on 17.04.2010 to import duty-free white/refined sugar initially with a cap of 1 million tons. Later on, duty-free import was also allowed by other Central/State Government Agencies and private trade without any cap on the quantity.
- Banned export of edible oils (except coconut oil and forest based oil) and pulses (except Kabuli Chana and organic pulses up to a maximum of 10000 tonnes per year).
- Futures trading in rice, urad, and tur suspended by the Forward Market Commission.
- Stock limit orders extended in the case of pulses, paddy, and rice up to 30 September 2011 and edible oil and edible oilseeds up to 31 March 2011.
- Duty under Tariff Rate Quota for Skimmed Milk Powder (SMP) reduced from 15% to 5% for import upto an aggregate of 10000 metric tonnes in a financial year.
- Export of milk powders (including skimmed milk powder, whole milk powder, dairy whitener and infant milk food), Casein and Casein products has been prohibited with effect from 18.02.2011.
- National Dairy Development Board (NDDB) has been allowed to Import of 30000 tonnes of skimmed Milk Powder and Whole milk powder and 15000 MT of Butter, Butter Oil and Anhydrous Milk Fat at zero% concessional duty under Tariff Rate Quota for the year 2011-12.

RBI Monetary Measures

- As part of the monetary policy review stance, the RBI has taken suitable steps with 12 consecutive increases in policy rates and related measures to moderate demand to levels consistent with the capacity of the economy to maintain its growth without provoking price rise. As per the most recent announcement of the RBI on 16 September 2011, the repo rate and reverse repo rate have been revised to 8.25 per cent and 7.25 per cent respectively.

Inter Ministerial Group (IMG)

An IMG (Inter Ministerial Group) has been constituted to review the overall inflation situation, with particular reference to primary food articles. It is also addressing possible steps to improve marketing and retailing, competition, and supply-chain improvements, including improvements in the functioning of Government regulated mandis that sometimes prevent retailers from integrating their enterprises with the farmers.

[Ministry of Finance (Department of Economic Affairs)
OM No. 5(16)Ec.Dn./2011 Dated 20.11.2011]

Comments of the Committee

(Please *see* Para Nos. 11-14 of the Chapter-I)

Recommendation (Sl. No. 7)

Expanding Banking Services

The Committee noted that for extending banking services to approximately 73000 habitations, by March, 2012, the Government was relying on use of Banking Correspondents/Facilitators (BCs/BFs) to a great extent to enable reach of branchless banking. As in March 2011, banks had 26,123 BCs/BFs. It was seen that out of 129 unbanked blocks, 58 blocks so far, had been provided banking services. So there were still 71 unbanked blocks, majority of which (70 blocks) were in the North-Eastern region and one in Jammu and Kashmir. Therefore, extending banking services in these areas was heavily centered on providing branchless banking, which could be through the use of technology and BCs/BFs. However, the experience of some banks in expanding banking network through the use of this model had not been very encouraging.

The Committee found that the Working Group appointed by RBI to study the experience of this model highlighted some of the problems of banks in using this channel extensively *viz.* cost of credit and volume of credit, operational, legal and reputation risks faced by banks in employing larger number of BCs, low coverage by individual BCs, difficulty in assessing integrity of individuals acting as BCs, lack of professionalism, delay in loan processing, disbursements, low volume of business generated by BCs etc. Consequently RBI issued revised guidelines for engaging BCs on September 28, 2010, providing for internal central monitoring and consumer protection measures and enlarging the scope of entities for acting as BCs. The Committee believed that although RBI had initiated measures to strengthen BC/BF model, the efficacy of this model, so far, in extending banking facilities is still doubtful.

Therefore, the Committee urged the Government/RBI to critically review the performance of BCs/BFs to develop them as a viable source of expanding banking network in remote and inaccessible areas. In this regard, the Committee pointed out that banks should not look at BCs as a mere 'cost centre' but should look beyond and treat them as a 'service centre'.

The Committee also desired that banks should have a sub-division of lending targets for different categories of weaker sections under priority sector lending, so that all sections/categories are evenly covered in financial inclusion. Such a sub-category should also include the extent of coverage of the economically disadvantaged among minorities. Similarly, time-bound targets should also be fixed for the village adoption scheme of banks.

Action Taken by the Government

From the year 2006 Scheduled Commercial Banks had been permitted, to adopt the Business Facilitator (BF)/Business Correspondent (BC) model for delivery of banking services in the unbanked and underbanked areas of the country. Though a variety of entities/individuals had been permitted by the Reserve Bank of India to act as BCs, only a few had actually been so engaged by banks. It was mentioned in the RBI's discussion paper on "Engagement of for profit companies as BCs", which was placed on its website on August 2, 2010, that out of 50 public sector and private sector banks, only 27 banks had reported engaging BCs. The paper also mentioned that most of the banks that had engaged BCs had appointed Section 25 companies/Trusts/Societies as BCs and while many banks had taken some steps to adopt the BC model, only a few of them had scaled-up beyond the pilot stage. The difficulty experienced by banks in scaling up had been attributed to several factors including credit, operational, legal and reputation risks faced by banks in engaging a large number of BCs, low coverage by individuals acting as BCs due to their financial and other constraints, difficulty in assessing integrity of individuals acting as BCs, general lack of professionalism of BCs in matters of regularity, punctuality, maintenance of various records, delays in loan processing, disbursements, low volume of business generated by BCs and costs associated with low volume small value transactions.

Keeping in view the above aspect, the guidelines for engaging Business Correspondents were reviewed and revised guidelines were issued by RBI on September 28, 2010. The banks may now engage Companies registered under the Indian Companies Act, 1956 with large and widespread retail outlets as BC (excluding NBFCs).

The scope of activities of BCs may include (i) identification of borrowers; (ii) collection and preliminary processing of loan applications including verification of primary information/data; (iii) creating awareness about savings and other products and education and advice on managing money and debt counselling; (iv) processing and submission of applications to banks; (v) promoting, nurturing and monitoring of Self Help Groups/Joint Liability Groups/Credit Groups/others; (vi) post-sanction monitoring; (vii) follow-up for recovery; (viii) disbursal of small value credit; (ix) recovery of principal/collection of interest; (x) collection of small value deposits; (xi) sale of micro insurance/mutual fund products/pension products/other third party products; and (xii) receipt and delivery of small value remittances/other payment instruments.

The activities to be undertaken by the BCs would be within the normal course of the bank's banking business, but conducted through the BCs at places other than the bank premises/ATMs.

As per extant RBI's Branch Authorisation Policy, general permission has been granted to domestic Scheduled Commercial Banks (other than RRBs) to open branches/mobile branches/Administrative Offices/CPCs (Service Branches), (i) in Tier 3 to Tier 6 centres (with population up to 49,999 which includes all rural centres) and (ii) in rural, semi urban and urban centres of the North Eastern States and Sikkim, subject to reporting. Thus, domestic scheduled commercial banks are not required to take permission from Reserve Bank of India for opening branches/mobile branches/Administrative Offices/CPCs (Service Branches) in above centres.

Keeping in view the goal of bringing banking services to identified about 73,000 villages with population above 2000 by March 2012, and thereafter progressively to all villages over a period of time, banks have been advised by RBI in July, 2011, that while preparing their Annual Branch Expansion Plan (ABEP), they should allocate at least 25 percent of the total number of branches proposed to be opened during a year in unbanked rural (Tier 5 and Tier 6) centres (centres that do not have a brick and mortar structure of any scheduled commercial bank for customer based banking transaction).

The target of 10% of ANBC for weaker Sections is beneficiary oriented and subsumed in overall target of priority sector lending. It may not be therefore practical to fix and monitor category-wise and Sector-wise progress. It is therefore not possible to fix sub-targets for each category of weaker sections. The sub-category of the weaker section of the priority sector lending *inter-alia* includes persons from minority community. RBI has further reported that a Committee has been constituted to re-examine the existing classification and suggest revised guidelines with regard to priority sector lending classification.

[Ministry of Finance (Department of Economic Affairs)
OM No. 5(16)Ec.Dn./2011 Dated 20.11.2011]

Comments of the Committee

(Please *see* Para Nos. 25-27 of the Chapter-I)

Recommendation (Sl. No. 8)

Review & Reconstitution of District Level Consultative Committee

The Committee observed that in expanding banking services and achievement of financial inclusion, District Level Consultative Committee (DLCC) had a crucial role. The DLCC had members from all commercial banks, co-operative banks, RRBs, NABARD, RBI and various State Government Departments and Agencies. This Committee was chaired by District Collector. They noted that the High Level Committee to review Lead Bank Scheme appointed by RBI had recommended to constitute a sub-committee of DLCC with a view to drawing up a road-map to provide banking services through a banking outlet in every village having a population of over 2000 by March, 2011. In this regard, Committee were of the opinion that DLCC needs to function more effectively to become the main instrument of implementing policies and planning. The Committee recommended review of the functioning of DLCC and its re-constitution and make the MP of the area to head the same.

Action Taken by the Government

The District Level Consultative Committees (DLCCs) or District Consultative Committee (DCC) is a common forum for bankers as well as Government Agencies/Departments to come to a common platform to find solutions to the problems arising hindering the smooth functioning of the various developmental activities under the Scheme at the district level. All the commercial banks, co-operative banks including DCCB and SLDB, RRBs, NABARD, etc. and various State Government Departments and allied agencies constitute the members of the DLCC/DCC. The Lead District Manager (LDM) of the lead bank is the convenor of DLCC/DCC. The Lead District Officer (LDO) of Reserve Bank is also a member of the DCC. The District Collector functions as the Chairman of this Committee.

Apart from convening DCC meetings, one meeting of DCC every year was held as a District Level Review Meeting (DLRM) with a view to evaluating the progress made in the implementation of schemes included in DCP/ACP. The Working Group to Review the Working of the Lead Bank Scheme, observed that DLRMs had not only served as useful forum for bringing together various organisations participating in the lead bank scheme and non-official agencies connected with rural development but also evolved, in a way, into forums for a general review of performance under DCP/AAP so as to ensure regular participation of all concerned agencies including non-officials in the developmental programmes under implementation in the district. The Group recommended that the frequency of these meetings may be increased, as also designate this forum as District Level Review Committee (DLRC) to reflect the nature of its functioning. Accordingly, DLRM was renamed as DLRC and has been constituted as a separate forum. RBI has advised lead banks that the DLRC meetings should be convened on quarterly basis by the lead bank and invariably invite MPs/MLAs and Zilla Parishad Chiefs to participate in these meetings. All Lead Banks have also been advised by RBI to fix the dates of DLRC meetings with due regard to MP's convenience.

[Ministry of Finance (Department of Economic Affairs) OM No. 5(16)Ec.Dn./2011 Dated 20.11.2011]

Comments of the Committee

(Please *see* Para No. 30 of the Chapter-I)

Recommendation (Sl. No. 9)

Lending to Agriculture and Weaker Sections

The Committee noted with concern the fact that both public and private sector banks had failed to achieve the targeted percentage of agricultural lending. Out of 17.28% of total agricultural lending by public sector banks, in March, 2010, 12.78% of adjusted net bank credit (ANBC) was provided for direct lending and 5.09% was given as indirect lending as against the stipulated 13.5% and 4.5% respectively. On the other hand, private sector banks made total agricultural lending of 16.97% of which 12.47% was given as direct credit and 5.63% was given as indirect credit. The Committee further observed from the data for individual banks that as many as 15 public sector and 11 private sector banks had made less than 18% of total agricultural lending. It was further seen that 12 public sector and 13 private sector banks had made indirect agricultural lending in excess of the prescribed 4.5%. Thus it was clear that while banks were still short of achieving required agricultural lending, many of them had shown greater propensity to disburse indirect agricultural credit. Though the

Government had stated to have taken several measures to increase agricultural lending, they had still failed to persuade banks to achieve the desired percentage of lending.

Action Taken by the Government

Increasing the flow of agriculture credit to farmers is a priority to the Government of India. In 2004 Government had announced a package for doubling the flow of credit to agriculture and allied activities in a period of three years commencing from 2004-05 over the amount disbursed during the year 2003-04. This target was achieved in two years thereafter annual targets are being fixed for agriculture credit flow. The flow of credit to agriculture and allied activities since 2003-04 is as under:

(In crore)

Year	Target	Achievement
2003-04	—	86,981
2004-05	1,05,000	1,25,309
2005-06	1,41,000	1,80,486
2006-07	1,75,000	2,29,400
2007-08	2,25,000	2,54,657
2008-09	2,80,000	3,01,682
2009-10	3,25,000	3,84,514
2010-11	3,75,000	4,46,779
2011-12	4,75,000	1,12,731.07*

*Achievement upto 30th June, 2011.

The target for flow of credit to the sector has been fixed at Rs. 4,75,000 crore for 2011-12 with the credit flow from various Banks during 2011-12 targeted to be as under:

(In crore)

Agency	Crop loan	Term loan	Total
Commercial Banks	1,85,000	1,70,000	3,55,000
Cooperative Banks	57,000	12,500	69,500
Regional Rural Banks	38,000	12,500	50,500
Total	2,80,000	1,95,000	4,75,000

In addition, it may be seen that in gross terms the direct agriculture lending by both the Public Sector Banks and Private Sector Banks has grown rapidly during the last 4 years:

(In crore)

Year	Direct Agriculture Lending	
	Public Sector Banks	Private Sector Banks
2006-07	1,45,409.48	28,243.23
2007-08	1,76,759.60	37,390.65
2008-09	2,15,634.72	46,509.54
2009-10	2,65,071.17	52,110.94

Source: RBI

2. From the above data it may be observed that the outstanding advances under direct agriculture lending by the Public Sector Banks has increased from Rs. 1,45,409.48 crore in 2006-07 to Rs. 2,65,071.17 crore in 2009-10, thereby registering an increase of 82.29%. Similarly, from the above data it may be observed that the outstanding advances under direct agriculture lending for the Private Sector Banks has increased from Rs. 28,243.23 crore in 2006-07 to Rs. 52,110.94 crore in 2009-10, thereby registering an increase of 84.51%.

3. The flow of credit to agriculture is steadily growing. However, some Banks are unable to achieve the given targets of share to agriculture credit. There are several factors that determine the achievement of the priority sector lending targets to the agriculture sector. Lending by the Banks depends upon a number of factors including its physical presence, climatic and other factors, the main economic activities in their service areas. This is also influenced by the base effect, *i.e.*, the growth in overall credit *vis-a-vis* credit flow to agriculture. As private sector banks have a predominant presence in urban and semi urban areas, it is getting reflected in their lending operations. It may be noted that the lending to agriculture sector by Private Sector Banks has been steadily rising.

4. The Domestic Scheduled Commercial Banks, including Public & Private Sector Banks, which fail to achieve their priority sector targets/ sub-targets, are required to deposit their lending shortfall through the RBI (as per the annual allocation made by the Government of India) to the various Funds created by Government of India in NABARD, SIDBI and NHB.

[Ministry of Finance (Department of Economic Affairs)
OM No. 5(16)Ec.Dn./2011 Dated 20.11.2011]

Comments of the Committee

(Please *see* Para No. 35 of the Chapter-I)

Recommendation (Sl. No. 10)

Lending to Weaker Sections

In case of lending to weaker sections, the performance of private sector banks is very poor. In March, 2010, these banks achieved only 5.48% of the weaker section lending *vis-a-vis* the required 10 percent. The principal reason for such performance is stated to be less number of branches of these banks in semi-urban and rural areas. The Committee expected the RBI to ensure that private sector banks also fulfil their social mandate.

Action Taken by the Government

As per Reserve Bank's extant guidelines on lending to priority sector, a target of 40 per cent of Adjusted Net Bank Credit (ANBC) or Credit Equivalent amount of Off-Balance Sheet Exposures (OBE), whichever is higher, as on March, 31st of the previous year, has been mandated for lending to the priority sector by domestic Scheduled Commercial Banks, both in the public and private sector. Within this, a sub-target of 10 per cent of ANBC or Credit Equivalent amount of OBE, whichever is higher, as on March, 31st of the previous year, has been mandated for lending to the weaker sections.

As reported by RBI, data on lending by Private Sector Banks to weaker sections as on the last reporting Fridays of March, 2008, 2009, 2010 and 2011 is given as under:

Year	Amount Outstanding (Rupees crore)	% of ANBC or CE of OBE, whichever is higher, as on March, 31st of the previous year
2008	7,152.29	2.10
2009	15,832.31	3.89
2010	25,686.03	5.45
2011	30,077.69	5.64

It may be observed from the above that Private Sector Banks as a group were not able to achieve the target of 10% of ANBC or Credit Equivalent amount of OBE, whichever is higher, as on March, 31st of the previous year. However, the performance of Private Sector Banks in lending to weaker sections in absolute as well as in percentage term has shown increasing trend over the years. RBI has further reported that the banks which fail to achieve the priority sector targets have to contribute to Rural Infrastructure Development Fund (RIDF)/ other Funds as disincentive measures.

As per RBI data out of 21 Private Sector Banks, 15 Banks have not been able to achieve the stipulated target of 10% for lending to weaker sections under Priority Sector Lending as on last reporting Friday of March, 2011. These 15 private sector banks have been advised, *vide* letter dated 1 st September, 2011, to pay special attention to this aspect. They have also been advised to ensure that the guidelines of RBI on Priority Sector Lending are implemented in letter and spirit and the same may be brought to the knowledge of the Board of the Bank.

[Ministry of Finance (Department of Economic Affairs)
OM No. 5(16)Ec.Dn./2011 Dated 20.11.2011]

Comments of the Committee

(Please *see* Para No. 35 of the Chapter-I)

CHAPTER V

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

–NIL–

NEW DELHI;
19 *December,* 2011
28 *Agrahayana,* 1933 *(Saka)*

YASHWANT SINHA,
Chairman,
Standing Committee on Finance.

ANNEXURE

MINUTES OF THE SEVENTH SITTING OF THE STANDING COMMITTEE ON FINANCE (2011-12)

The Committee sat on Monday, the 19th December, 2011 from 1700 hrs. to 1800 hrs.

PRESENT

Shri Yashwant Sinha—*Chairman*

MEMBERS

Lok Sabha

2. Shri Bhakta Charan Das
3. Shri Nishikant Dubey
4. Shri Bhartruhari Mahtab
5. Shri Prem Das Rai
6. Shri Rayapati S. Rao
7. Shri Magunta Sreenivasulu Reddy
8. Dr. M. Thambidurai
9. Shri Shivkumar Udasi

Rajya Sabha

10. Shri Piyush Goyal

SECRETARIAT

1. Shri R.K. Jain	—	*Director*
2. Shri Ramkumar Suryanarayanan	—	*Deputy Secretary*
3. Smt. Meenakshi Sharma	—	*Deputy Secretary*

2. The Committee took up following draft Reports for consideration and adoption:—

(i) Draft Report on action taken by the Government on the recommendations contained in the Thirty-third Report (15th Lok Sabha) on Demands for Grants (2011-12) of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services & Disinvestment);

(ii) * * * *

(iii) * * * *

(iv) * * * *

(v) * * * *

3. The Committee adopted the draft reports at Sl.Nos. (ii) and (iv) without any modification and those at Sl.Nos. (i), (iii) and (v) with minor modifications. The Committee authorised the Chairman to finalise the Reports in the light of the modifications suggested and present these Reports to Parliament.

The Committee then adjourned.

APPENDIX

(*Vide* Para 4 of the Introduction)

ANALYSIS OF THE ACTION TAKEN BY GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE THIRTY-THIRD REPORT OF THE STANDING COMMITTEE ON FINANCE (FIFTEENTH LOK SABHA) ON DEMANDS FOR GRANTS (2011-2012) OF THE MINISTRY OF FINANCE (DEPARTMENTS OF ECONOMIC AFFAIRS, EXPENDITURE, FINANCIAL SERVICES AND DISINVESTMENT)

		Total	% of Total
(i)	Total number of Recommendations	16	
(ii)	Recommendations/observations which have been accepted by the Government (*Vide* Recommendations at 1, 2, 4, 5, 6, 11, 12, 13, 14, 15 and 16)	11	68.75
(iii)	Recommendations/observations which the Committee do not desire to pursue in view of the Government's replies	NIL	0.00
(iv)	Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee (*Vide* Recommendations at 3, 7, 8, 9 and 10)	5	31.25
(v)	Recommendation/observation in respect of which final reply of the Government is still awaited	NIL	0.00