FIFTY FIRST REPORT

STANDING COMMITTEE ON FINANCE (2011-2012)

(FIFTEENTH LOK SABHA)

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

DEMANDS FOR GRANTS (2012-2013)

Presented to Lok Sabha on 24 April, 2012
Laid in Rajya Sabha on 24 April, 2012

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

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CONTENTS

COMPOSITION OF STANDING COMMITTEE ON FINANCE (2011-2012)

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*Ceased to be the Member of the Committee consequent upon their retirement from Rajya Sabha w.e.f. 2 April, 2012.

INTRODUCTION

I, the Chairman of the Standing Committee on Finance, having been authorized by the Committee, present this Fifty-First Report (15th Lok Sabha) on the 'Demands for Grants (2012-13)' of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment).

2. The Demands for Grants (2012-13) of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment) were laid on the Table of the House on 23 March, 2012. Under Rule 331E of the Rules of Procedure and Conduct of Business in Lok Sabha.

3. The Committee took oral evidence of the representatives of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment) on 26 March, 2012.

4. The Committee considered and adopted this Report at their sitting held on 20 April, 2012. Minutes of the sittings of the Committee are given in appendix to the report.

5. The Committee wish to express their thanks to the representatives of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment) for appearing before the Committee and furnishing the material and information which the Committee desired in connection with the examination of the Demands for Grants (2012-13).

NEW DELHI;
20 April, 2012
31 Chaitra,1934 (Saka)

YASHWANT SINHA,
Chairman,
Standing Committee on Finance.

PART I

BACKGROUND ANALYSIS

CHAPTER I

ANALYSIS OF DEMANDS FOR GRANTS (2012-13)

INTRODUCTION

1.1 The Ministry of Finance is responsible for the administration of the finances of the Central Government. It is concerned with economic and financial matters affecting the country as a whole, including mobilization of resources for development. It regulates the expenditure of the Central Government and deals with transfer of resources to States. The Ministry comprises of five Departments namely: (i) Department of Economic Affairs; (ii) Department of Expenditure; (iii) Department of Disinvestment; (iv) Department of Financial Services; and (v) Department of Revenue.

1.2 The Ministry of Finance presents 13 Demands for Grants (Demand Nos. 32 to 44), which covers the above 5 Departments, as follows:—

(i) Department of Economic Affairs:

Demand No. 32 – Department of Economic Affairs, Demand No. 34 - Appropriation – Interest Payments; Demand No. 36 - Loans to Government Servants, etc; and Demand No. 37 - Appropriation – Repayment of Debt.

(ii) Department of Financial Services:

Demand No. 33 - Department of Financial Services

(iii) Department of Expenditure:

Demand No. 35 - Transfers to State and Union Territory Governments; Demand No. 38 – Department of Expenditure; Demand No. 39 – Pensions; and Demand No. 40 – Indian Audit and Accounts Department.

(iv) Department of Revenue:

Demand No. 41 – Department of Revenue; Demand No. 42 – Direct Taxes; and Demand No. 43 – Indirect Taxes;

(v) Department of Disinvestment:

Demand No. 44 – Department of Disinvestment.

The Detailed Demands for Grants and the Outcome Budget of the Ministry for the year 2012-13 were laid on the Table of the House on 23 March, 2012.

1.3 This Report deals Demands for Grants of the Departments (excluding the Department of Revenue, which dealt with in a separate Report) under the Ministry of Finance.

(A) Department of Economic Affairs

1.4 The Department of Economic Affairs (DEA) is the nodal Department of the Union Government which formulates the country's economic policies and programmes and programmes having a bearing on domestic and international aspects of economic management. This Department prepares the Annual Union Budget (excluding the Railway Budget) and the Economic Survey.

(i) Demand No. 32: Department of Economic Affairs

1.5 Total Budget provision for the year 2012-13 is Rs. 69042.44 crore. The break-up is for Plan Rs. 5142.45 crore and Non-Plan Rs. 63899.99 crore. The details of non-plan and plan allocation and actuals during the years 2009-10, 2010-11 and 2011-12 are given below:—

(Rs. in crore)

Description	2009-10			2010-11			2011-12		
	BE	RE	Actual	BE	RE	Actual	BE	RE	Actual as on Dec. 2011
Non-Plan	36871.54	39667.85	37864.82	49559.10	52306.77	49995.37	15855.94	7561.97	2873.74
Plan	1542.00	1450.00	0.00	50.00	7930.00	7430.00	7850.00	14200.00	110.83
Total	38413.54	41117.85	37864.82	49609.10	60236.77	57425.37	23705.94	21761.97	2984.578

1.6 Statement showing increase/decrease (Major Head wise) in BE 2012-13 over the last three years is furnished below:—

(Rs.in crore)

Major Head (MH)	(BE) 2009-10	(BE) 2010-11	% Increase(+)/ Decrease(-) Over BE 2009-10	(BE) 2011-12	% Increase(+)/ Decrease(-) Over BE 2010-11	(BE) 2012-13	% Increase(+)/ Decrease(-) Over BE 2011-12
Non Plan							
2052	66.37	70.37	6.03	84.71	20.38	81.03	-4.34
2047	11.43	11.79	3.15	12.66	7.38	13.20	4.27
2070	17.96	3.72	-79.29	4.28	15.05	12.15	183.88
2075	300.12	300.03	-0.03	300.01	-0.01	300.01	0.00
2235	0.01	0.10	900.00	0.14	40.00	0.10	-28.57
2416	45.01	40.00	-11.13	40.00	0.00	50.00	25.00
3075	2686.43	3429.88	27.67	3680.53	7.31	3603.89	-2.08
3466	4.74	15.69	231.01	7.73	-50.73	0.43	-94.44
3475	307.37	153.97	-49.91	200.73	30.37	272.64	35.82
3605	38.62	42.07	8.93	36.61	-12.98	43.00	17.45
4046	894.00	1063.20	18.93	1584.80	49.06	1645.35	3.82
4075	3.00	3.00	0.00	1.50	-50.00	3.00	100.00
5465	0.00	0.00	0.00	400.00	0.00	1400.00	250.00
5466	6704.04	294.83	-95.60	12192.09	4035.29	56468.88	363.16
5475	12.60	9.10	-27.78	5.80	-36.26	6.30	8.62
7475	0.00	0.00	0.00	0.00	0.00	0.01	0.00
7605	0.01	0.01	0.00	0.00	-100.00	0.00	0.00
Total Non Plan	11091.71	5437.76	-50.97	18551.59	241.16	63899.99	244.44
Plan							
2235	0.00	1000.00	0.00	500.00	-50.00	1000.00	100.00
2810	0.00	0.00	0.00	0.00	0.00	1500.00	0.00
3054	2158.36	1753.46	-18.76	2081.26	18.69	2204.90	5.94
5475	150.00	480.26	220.17	499.37	3.98	437.55	-12.38
Total Plan	2308.36	3233.72	40.09	3080.63	-4.73	5142.45	66.93
Grand Total	13400.07	8671.48	-35.29	21632.22	149.46	69042.44	219.16

1.7 The major reasons for variations are given below:-

"NON-PLAN SCHEMES

MH - 2070 – Other Administrative Services

The decrease in BE 2010-11 is due to winding up of 13th Finance Commission and Investment Commission. The marginal increase in 2011-12 is due to token provision for the newly created Financial Sector Legislative Reforms Commission (FSLRC) and additional provision for Rents, Rates and Taxes for SAT. The increase in BE 2012-13 is due to provision for the proposed 14th Finance Commission and FSLRC.

MH – 3466 – International Financial Institutions

During 2010-11 and 2011-12 the reduced expenditure is due to less requirements for the World Bank Project under PPA. The reduced provision at BE 2012-13 is due to closure of World Bank TA Loan.

MH - 5465 – Investment in General Financial and Trading Institutions

There is no provision in 2009-10 and 2010-11. During 2011-12 and 2012-13 a provision of Rs. 400.00 crore has been kept for investment in Security Printing and Minting Corporation of India Limited (SPMCIL). During RE 2011-12 a provision of Rs. 501.90 crore has been kept for National Skill Development Corporation (NSDC) out of which Rs. 1.90 crore is for Government of India Equity. A provision of Rs. 1000.00 crore has been kept during 2012-13 for NSDC.

MH - 5466 – Investment in International Financial Institutions

During 2009-10 the provision for IMF (Securities) could not be utilized as no demand was raised by IMF. During 2010-11 the additional expenditure was due to payment to IMF towards Securities for which supplementary was obtained. During 2011-12 less expenditure till December, 2011 is due to no demand by IMF for the Securities. For BE 2012-13, there is a provision of Rs. 56000.00 crore for India's quota increase at IMF.

MH- 2235 – Social Security & Welfare

A provision of Rs. 1000.00 crore has been kept in BE 2010-11 for transfer to National Social Security Fund for Unorganized Labour which has been fully utilized. During 2011-12 and 2012-13 there is a provision of Rs. 500.00 crore and Rs. 1000.00 crore respectively.

MH - 2810 - New and Renewable Energy

There is no provision during 2009-10 and 2010-11. A supplementary of Rs.1066.46 crore was obtained in the first batch during 2011-12 for initial transfer to the "National Clean Energy Fund (NCEF)" to be maintained in the Public Account of India for meeting expenditure to finance various new 10 projects relating to research in clean energy etc., to be implemented by different Ministries/ Departments. During 2012-13 there is a provision of Rs. 1500.00 crore.

MH - 5475 – Capital Outlay on Other General Economic Services

The Plan provision is for leveraging budgetary support through Viability Gap Funding (VGF) for infrastructure projects under Public Private Partnership (PPP) model.

During 2009-10 the provision of Rs.150.00 crore has been reduced to Rs. 45.95 crore due to general slowdown in the economy which resulted in failure of bids for the projects. During 2010-11 the provision of Rs. 480.26 crore has been reduced to Rs. 125.00 crore due to slow closure of financial proposals of the projects granted "in-principle" approval. During 2011-12 the provision of Rs. 499.37 crore has been reduced to Rs. 300.00 crore due to delay in implementation of Mumbai Metro Line-2 project. During 2012-13, there is a provision of Rs. 437.55 crore."

1.8 Asked about the need for providing budgetary support to SPMCIL, a profit making miniratna category-I company, the Ministry in a post-evidence reply stated as under:—

"….at the time of creation of SPMCIL in the year 2005, it was decided that Capital Expenditure to the tune of Rs.1200 – 1500 crore shall be made, as per need, in the form of equity or any other form, for the modernisation and capacity upgradation of the existing plants and machineries, for making the units of SPMCIL competitive……

Accordingly, SPMCIL asked for financial assistance to the tune of Rs.1370 crore for indigenisation projects……….It was decided to move the Cabinet for providing financial assistance to SPMCIL through equity investment to the tune of Rs. 930 crore. An initial budget provision was made in BE 2011-12 for Rs. 400 crore in anticiptation of the above capital expenditure. As the required appraisal/formalities were yet to be completed and the finalization of the same would take some more time…..it was decided to surrender the amount in RE 2011-12. It was also decided that a provisional amount of Rs. 400 crore may be kept in BE 2012 – 13."

(ii) Demand No. 34th: Appropriation— Interest Payments

1.9 Interest Payments cover payment of interest on Central Government debt obligations *e.g.* treasury bills and connected securities issued to RBI, internal/external debts, State Provident Funds, Insurance and Pension Funds, etc. Total budget provision for the year 2012-13 under Non-plan is Rs. 3,24,769.43 crore.

(iii) Demand No. 36 : Loans to Government Servants etc.

1.10 This Demand is made for provision for advances to Members of Parliament for motor conveyances, and for disbursement of loans and advances employees of all Central Ministries/Departments, offices under them and Union Territory administrations. The budget provision for BE 2012-13 has been reduced to Rs. 250.00 crore from Rs.300.00 crore of BE 2011-12 keeping in view the trend of expenditure and the demand received from Ministries/Departments.

(iv) Demand No. 37th: Appropriation—Repayment of Debt

1.11 Repayment of Debt is a charged expenditure. This caters to the repayment of borrowings of the Central Government as well as for discharge of treasury bills of different maturities, etc. The Budget allocation in this Demand is netted against the receipts into Government account of fresh internal/external debt and cash balance adjustment. The proposed net expenditure in BE 2012-13 is Rs. 37,86,074.35 crore.

(B) Department of Expenditure

1.12 The Department of Expenditure is the nodal Department for overseeing the public expenditure management system in the Central Government and for matters connected with State finances. It oversees the expenditure management in the Central Ministries/Departments and monitors implementation of recommendations of the Expenditure Reforms Commission. It coordinates the Outcome Budget of different Ministries/Departments, releases funds to State Governments for implementing developmental work and monitors matters relating to the Central Plan.

(i) Demand No.35 – Transfers to State and Union Territory Governments

1.13 Demand No. 35 relates to two main transfers, namely, the Central Assistance to States for Plans, and Grants to States under the proviso of Article 275 (1) of the Constitution on the recommendations of the Finance Commission. These are known as the Finance Commission Grants. The actual expenditure incurred in 2010-11, Budget Estimates (BE)/Revised Estimates (RE) 2011-12 and BE 2012-13 are given below:—

(Rs. in crore)

Descrip	Actuals 2010-11			BE 2011-12			RE 2011-12			BE 2012-13		
tion	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total
Charged	10213.75	31514.19	41727.94	--	49298.62	49298.62	10000.00	50571.82	60571.82	11000.00	59357.46	70357.4
Voted	62020.88	9504.26	71525.14	88473.61	10875.00	99348.61	73968.59	11403.00	85371.59	95908.00	9665.00	105573
Total	72234.63	41018.45	113253.08	88473.61	60173.62	148647.23	83968.59	61974.82	145943.41	106908.00	69022.46	175930

Release of funds for Central Assistance Plan Schemes

1.14 The Department of Expenditure through its Demand No. 35 releases Grants / funds to States for Plan schemes like Backward Regions Grant Fund (BRGF), and Jawaharlal Nehru National Urban Renewal Mission (JNNURM), etc. on the recommendation of the Planning Commission / nodal Ministry concerned.

(i) Backward Region Grant Fund (BRGF) scheme:

1.15 Out of total fund provision of Rs. 81,741.62 crore allotted under Central Assistance Plan Schemes for the year 2011-12, only Rs. 50,329.66 crore has been released to States as on 31 December, 2011. Notably, Rs. 1942.91 crore only released as on 31 December, 2011 as against provision of BE of Rs. 4840.00 crore under the BRGF scheme. In BE 2012-13, Rs. 6990.00 crore is kept for the BRGF scheme.

1.16 Asked to furnish the reasons for slow progress in release of central assistance to states particularly under BRGF, the Ministry in their post-evidence submitted as follows:—

"BRGF scheme has two components *i.e.*, the State component and District component. Funds under State Component of BRGF are being released by Department of Expenditure through Demand 35 on recommendation of Planning Commission. Since the release of funds is made only after Planning Commission satisfies itself regarding utilization of previously released funds, the pace of recommendations varies from project to project under the State component of the BRGF scheme. Based on the stepped up requirement of funds as conveyed by Planning Commission, RE 2011-12 was fixed as Rs.7280 crore for the State component of the BRGF scheme as against BE of Rs.4840 crore. The release for the State component of the BRGF scheme in 2011-12 is Rs.7187 crore. As regards the District component of BRGF scheme, the Ministry of Panchayati Raj is the implementing Ministry. The provision for District 13 component of BRGF in BE 2011-12 was Rs.7190 crore (out of the total BRGF provision of Rs.12030 crore). This amount does not form part of Demand 35 of Department of Expenditure".

(ii) Jawaharlal Nehru National Urban Renewal Mission (JNNURM)

1.17 Sixty –three Cities/Urban Agglomerations (UAs) with population of 10 lakhs and above, as per 2001 census, were selected for implementation of JNNURM till March, 2012. The Mission is said to be extended for another two years. When asked as to whether, as per 2011 Census, the coverage of the Mission would be extended with enhanced allocation, the Ministry in a postevidence reply stated that:—

"The allocation under JNNURM are made on the basis of assessment carried out by Line Ministries, i.e., Ministry of Urban Development (MoUD) and Ministry of Housing and Poverty Alleviation (HUPA) in consultation with States and Planning Commission on an assessment of the progress of on-going projects by different urban local bodies, simultaneously carrying out the required reforms. Allocation can be revised if the earlier sanctioned funds are utilized expeditiously and project implementation is expedited by the implementing agencies. The budget allocation in BE 2012-13 under JNNURM has already been increased by more than Rs.5000 crore over the RE of 2011-12."

1.18 The funds released under most of the Central Assistance schemes are grossly unutilized year-after-year. Details of some schemes are given below:—

S.No.	Name of the Scheme (s)	Year(s)	Reason(s)
1	2	3	4
1.	Nutrition Programme for Adolescent Girls (NPAG)	2008-09 and 2009-10	Nodal Ministry of Women and Child Development recommended for release of lesser amount than projections made for budgetary provision.

1	2	3	4
2.	Additional Central Assistance for externally aided projects	2008-09	Due to recommendation for lesser amounts received from the nodal agencies namely Planning Commi-ssion and DEA (CAAA).
3.	National E-Governance Action Plan (NEGP)	2008-09, 2009-10, and 2010-11	Due to receipt of less proposals from the nodal Ministry of Information Technology.
4.	Special Central Assistance Hill Area	2009-10	The Planning Commission, the nodal agency for this scheme, did not submit adequate proposals for release.
5.	Accelerated Irrigation Benefit Programme & other water Resources Programme	2009-10 and 2010-11	The Ministry of Water Resources could not recommend adequate fund release on the basis of complete proposals from State Governments before the closure of the financial year.
6.	National Social Assistance Programme including Annapurna	2010-11	Releases under the schemes are made on the recomme-ndation of Ministry of Rural Development based on cost of beneficiary coverage under the Progra-mme. Saving occurred as actual requirement of funds indicated by States was lower than anticipated.
7.	Jawaharlal Nehru National Urban Renewal Mission (JNNURM)	2010-11	The line Ministries are unable to recommend appropriate cases releases to the full extent of available funds.

1	2	3	4
8.	Additional Central Assistance for drought mitigation in Budelkhand Region	2010-11	Due to receipt of admissible fund release proposals lower than the provision from the Planning Commission, which recommends fund release under the package.

1.19 The allocation of Grants/funds by the Department of Expenditure through its Demand No. 35, for various plan schemes appears to be contrary to principal activity entrusted to them *i.e.* overseeing the public expenditure management system in the Central Government including quality of development expenditure and matters connected with State finances. Further, considering the gross underutilization, mismatch between the funds earmarked and proposals received, and overlapping between the nodal Ministries/line Ministries and Department of Expenditure, the Ministry of Finance has been asked as to is it not appropriate that all Grants/funds to States for plan schemes provided through Demand No. 35 by the Department of Expenditure, henceforth, be provided in the respective Demand of the nodal Ministry.

1.20 Asked to comment on these views, the Ministry in a post-evidence reply stated as follows:—

"Demand No. 35 operated by the Department of Expenditure contains the transfer to State Governments on account of (a) Non-Plan Grants, particularly the grants recommended by the Finance Commission, and (b) some Plan Grants on account of Block grants such as Normal Central Assistance (NCA) and some State Plan Schemes. The Department of Expenditure releases funds based on the recommendations of the concerned Central Ministries. The expenditure under different heads of Grant No. 35 is dependent upon the recommendation by the concerned Line Ministries/ Planning Commission and fulfillment of prescribed conditions. Hence, the reasons for any under-utilisation of grants may not be attributable to the placement of funds in Demand No. 35.

Likewise, recurring underutilization of funds in almost all Grants-in-aid being provided to States by the Department of Expenditure through its Demand No. 35 under Revenue Section (non-plan) (charged) could be mainly attributed to non-submission of duly approved action plans/utilisation certificates/non-fulfillment of conditions for release of Grants in-aid by some State Governments."

1.21 To a specific query as to whether the Ministry of Finance (Department of Expenditure) explored other alternative(s) for ensuring proper and timely utilisation of expenditure/reporting by the States, the written reply as submitted by the Ministry is given below:—

> "The non-plan transfers are based on the recommendations of Finance Commissions. Releases of grants recommended by the 13 th Finance Commission (FC-XIII) are linked to receipt of budget documents, action plan of the concerned State, utilization certificates, self-certifications by State Governments, compliance of FRBM Acts of States with targets stipulated by FC-XIII, etc. Steps taken by the Department of Expenditure to expedite release of grants during 2011-12 include regular monitoring of progress of utilization of funds for Grants-in-aid as per FC-XIII recommendations with State Governments and concerned line Departments. As a result, approx. 92% of funds were released against RE (Non-Plan) of 2011-12."

(ii) Demand No. 38 – Department of Expenditure

1.22 Demand No. 38 deals with the administrative expenditure of the Department of Expenditure. The total budget provision under this demand is Rs. 135.24 crore for the year 2012-13.

(iii) Demand No. 39 — Pensions

1.23 Demand No. 39 is for payment of pension and gratuity to civilian pensioners, including provision for payment of pensions and gratuities. The net budgetary provision is Rs. 19,710.00 crore for the year 2012-13.

(iv) Demand No. 40 – Indian Audit and Accounts Department

1.24 The budget provision under Demand No. 40 includes *inter-alia* establishment related expenditure of the office of the Comptroller and Auditor General (C&AG) and the Civil Audit and Accounts Offices under its control. The budget provision kept for BE 2012-13 is Rs. 2568.49 crore.

(C) Demand No. 33 — Department of Financial Services

1.25 The Department of Financial Services (DFS) is responsible for issues relating to Public Sector Banks, Financial Institutions, Agricultural Credit, Public Sector Insurance Companies and Pension Reforms. A statement showing the details of funds allotted during the year 2012-13 over RE 2011-12 is as under:—

(Rs. in crore)

Major Head (MH)	2011-12			2012-13	% increase/ decrease over
	BE	RE	Actual as on 31st March, 2012 (Provisional)	BE	RE-(2011-12)
Non-Plan					
2052	15.02	14.08	14.57	15.07	7.03
2047	7.78	7.78	7.64	8.23	5.78
2070	78.82	73.03	72.80	81.12	11.08
2235	8726.61	2207.39	1690.49	577.29	-73.85
2416	5888.01	4020.02	3302.70	6550.01	62.93
2885	500.08	600.04	600.04	408.90	-31.85
3465	625.00	625.00	625.00	625.00	0
3475	0.62	0.62	0.60	69.61	11127.42
4059	0.00	0.01	0.00	0.01	*
5465	14.00	0.00	0.00	0.00	*
6885	0.00	14.00	14.00	14.00	0
Non-Plan Total	15855.94	7561.97	6327.84	8349.24	
Plan					
2416	0.00	100.00	100.00	200.00	100.00
3465	50.00	100.00	100.00	0.00	-100.00
4416	500.00	1200.00	1402.43	700.00	-41.67
4885	1300.00	800.00	800.00	600.00	-25.00
5465	6000.00	12000.00	12095.00	14588.00	21.57
Plan Total	7850.00	14200.00	14497.43	16088.00	
Grand Total	23705.94	21761.97	20825.27	24437.24	

*Variation cannot be expressed in percentage terms.

1.26 Major reasons for increase/decrease of funds allotted in BE 2012-13 under various Major Heads as compared to BE/RE and actuals in 2011-12 are as follows:—

"**(a) Non-Plan Schemes:**

(i) **2235–Social Security and Welfare:** Decrease in the provision under this Major Head in BE 2012-13 is mainly on account of a token provision only for Agricultural Debt Waiver and Debt Relief Scheme for farmers (ADWDRS)-2008, as the implementation period of the Scheme is over and no further claims for reimbursement are anticipated.

(ii) **2416–Agricultural Financial Institutions:** Increase in the provision in BE 2012-13 is because Rs. 6000 crore has been provided towards interest subvention for providing short-term credit to farmers as against actuals of Rs. 3282.70 crore in 2011-12.

2416–Long Term Cooperative Credit Structure (LTCCS): Based on the recommendations of Vaidyanathan Task Force-II, a revival package for the Long Term Cooperative Credit Structure (LTCCS) was approved by the Government of India on 26.02.2009. The total outlay for implementation of LTCCS is Rs. 3070.00 crore. A sum of Rs. 20.00 crore was released to NABARD for implementation of this package during 2008- 09. However, the Government of India constituted a Task Force to assess the impact of the implementation of the Agricultural Debt Waiver and Debt Relief Scheme (ADWDRS), 2008 and Short Term Cooperative Credit Structure (STCCS) package on the financial health of the LTCCS. The package for LTCCS is being finalised keeping in view the Report of the Task Force and, therefore, the provisions made under the scheme from 2009-10 onwards could not be utilised.

(iii) **2885–Other outlays on Industries and Minerals:** Decrease in the provision in 2012-13 is mainly because as against provision of Rs. 500 crore for 1% interest subvention on housing loan in 2011-12, Rs. 400 crore has been provided in BE 2012-13. In view of the shortage of housing for low income groups in major cities and towns, it is proposed in the Budget 2012-13, among other things, that the scheme of interest subvention of 1 per cent on housing loan upto Rs. 15 lakh where the cost of the house does not exceed Rs. 25 lakh for another year.

(iv) **3475–Other General Economic Services:** There is increase in BE 2012-13 because of a provision of Rs. 69.09 crore towards payment to ICICI Bank on account of exchange/interest rates fluctuation in respect of past loan from IBRD.

(b) Plan Schemes:

(i) **2416–Agricultural Financial Institutions:** Increase in the provision in 2012-13 is because as against Rs. 100 crore in 2011-12, Rs. 200 crore has been provided towards Women's Self Help Groups (SHGs) Development Fund.

(ii) **3465–General Financial and Trading Institutions:** In 2011-12, Rs. 100 crore was provided for creating India Microfinance Equity Fund with SIDBI. As this was a one-time payment, no provision is made in 2012-13.

(iii) **4416–Investment in Agricultural Financial Institutions:** Provision in BE 2012-13 is less than the provision/actuals of 2011-12 because of reduced provision for subscription to the share capital of National Bank for Agricultural and Rural Development (NABARD) and recapitalisation of Regional Rural Banks (RRBs).

(iv) **4885–Other Capital outlay on Industries and Minerals:** Provisions for EXIM Bank and IIFCL in 2012-13 are lesser than the corresponding provisions in 2011-12.

(v) **5465–Investments in General Financial and Trading Institutions:** Increase is mainly because of higher provision for recapitalisation of Public Sector Banks (PSBs) in 2012-13."

1.27 The fund utilisation under some of the Plan and Non-plan schemes during the last three years is given below:—

(a) Non-Plan Schemes:

(Rs. in crore)

Name of the Scheme	2010-11			2011-12			2012-13
	BE	RE	Actuals	BE	RE	Actuals upto Dec. 2011	BE
1	2	3	4	5	6	7	8
Major Head 2235 Agricultural Debt Waiver and Debt Relief Scheme, 2008	12000.00	12000.00	11340.47	6000.00	3000.00	1079.41	0.01
Payment of interest to lending institutions towards ADWDR Scheme	1434.00	1434.00	1434.00	287.00	287.00	178.46	0.01

1	2	3	4	5	6	7	8
Subsidy to Public Sector General Insurance Companies for Universal Health Insurance Scheme (UHIS)	20.00	25.00	22.00	20.00	20.00	4.00	0.01
Interest subsidy to LIC for Pension Plan for Senior Citizens (MH)	209.32	175.70	175.70	199.61	190.38	0.00	182.25
Swavalamban Scheme to encourage people from unorganized sector to join New Pension System (NPS) (MH)	0.00	110.00	53.50	220.00	110.00	0.00	220.00
Major Head 2416							
Revival of Long Term Cooperative Credit Structure (MH 2416)	1000.00	500.00	0.00	1000.00	0.01	0.00	500.00

(b) Plan Schemes:

(Rs. in crore)

Name of the	2010-11			2011-12			2012-13
Scheme (Major Head – MH)	BE	RE	Actuals	BE	RE	Actuals upto Dec. 2011	BE
Grants to NABARD for creation of Women's Self Help Groups (SHGs) Development Fund (MH 2416)	0.00	0.00	0.00	0.00	100.00	0.00	200.00

(D) Demand No. 44 — Department of Disinvestment:

1.28 This Department has no Plan or Non-Plan Scheme. The entire Budget Provision is under Non-Plan for salary/wages, payment for professional/special services and for other administrative expenses. BE under Revenue Section for the year 2012-13 is Rs. 63.24 crore.

CHAPTER II

BUDGETARY REFORMS

2.1 The Budget 2012-13 at a Glance is given in the following table:-

(Rs. In crore)

No.		2010-11 (Actuals) Provisional	2011-12 (BE)	2011-12 (RE)	2012-13 (BE)
1		2	3	4	5
1.	Revenue Receipts	788471	789892	766989	935685
	2. Tax Revenue (net to centre)	569869	664457	642252	771071
	3. Non-Tax Revenue	218602	125435	124737	164614
4.	Capital Receipts (5+6+7)	408857	467837	551730	555241
	5. Recoveries of Loans	12420	15020	14258	11650
	6. Other Receipts	22846	40000	15493	30000
	7. Borrowings and other liabilities (includes draw-down of cash balance)	373591	412817	521980	513590
8.	Total Receipts (1+4) (excluding receipts under Market Stabilisation Scheme)	1197328	1257729	1318720	1490925
9.	Non-Plan Expenditure	818299	816182	892116	969900
	10. On Revenue Account of which,	726491	733558	815740	865596
	11. Interest Payments	234022	267986	275618	319759
	12. On Capital Account	91808	82624	76376	104304
13.	Plan Expenditure	379029	441547	426604	521025
	14. On Revenue Account	314232	363604	346201	420513
	15. On Capital Account	64797	77943	80404	100512
16.	Total Expenditure (9+13)	1197328	1257729	1318720	1490925
	17. Revenue Expenditure (10+14)	1040723	1097162	1161940	1286109
	18. Of which, Grants for creation of Capital Assets	87487	146853	137505	164672
	19. Capital Expenditure (12+15)	156605	160567	156780	204816

1		2	3	4	5
20.	Revenue Deficit (17-1)	252252 (3.3)	307270 (3.4)	394951 (4.4)	350424 (3.4)
21.	Effective Revenue Deficit (20-18)	164765 (2.1)	160417 (1.8)	257446 (2.9)	187752 (1.8)
22.	Fiscal Deficit {16-(1+5+6)}	373591 (4.9)	412817 (4.6)	521980 (5.9)	513590 (5.1)
23.	Primary Deficit (22-11)	139569 (1.8)	144931 (1.6)	246362 (2.8)	193831 (1.9)

2.2 Asked to explain the short-term, medium-term and long-term plans towards achievement of target of fiscal deficit, the Ministry in a written reply stated as under:

"In the Medium Term Fiscal Policy Statement, presented along with Budget 2012-13, the targets for reduction in Fiscal Deficit has been indicated. It is projected to reduce the Fiscal Deficit from 5.9 per cent of Gross Domestic Product (GDP) in RE for 2011-12 to 5.1 per cent in BE 2012-13, 4.5 per cent in 2013-14 and 3.9 per cent of GDP in 2014-15.

Though the above projected fiscal deficit levels are higher than the target of 3 percent of GDP in 2013-14 and 2014-15 as recommended by the 13th Finance Commission, it is estimated that debt and liabilities would still be lower as percentage of GDP at 44.0 per cent and 41.9 per cent in the two respective years than the recommended debt target for these two years at 47.5 per cent and 44.8 per cent of GDP respectively.

The above projected fiscal consolidation roadmap is designed with a mix of reduction in total expenditure as percentage of GDP and improvement in tax to GDP ratio. With economy estimated to grow at higher rate in 2012-13 than 2011-12, it would be possible to improve the tax to GDP ratio. In the medium term targets, gross tax collection as percentage of GDP is projected at 11.1 per cent in 2013-14 and 11.7 per cent in 2014-15 as against 10.6 per cent in BE 2012-13. With reprioritization of expenditure towards developmental side and curtailing the growth in non-developmental expenditure, total expenditure is projected to decline from 14.7 per cent of GDP in BE 2012-13 to 14.1 per cent in 2013- 14 and 13.6 per cent of GDP in 2014-15. Notwithstanding above reduction in expenditure, plan expenditure is projected to be maintained at 5.1 per cent of

GDP during those years as in BE 2012-13 and capital expenditure (including grants for creation of capital assets) is projected to increase from 3.6 per cent of GDP in BE 2012-13 to 3.9 per cent of GDP in 2014-15. Efforts are being made to bring down total expenditure of the government as percentage of GDP to the above projected level."

2.3 The Government has proposed to amend the Fiscal Responsibility and Budget Management(FRBM) Act, 2003 as part of Finance Bill, 2012, which *inter-alia* seeks statutory recognition of the concept of Effective Revenue Deficit i.e. the difference between revenue deficit and grants for creation of capital assets. On being asked to clarify as to how, with the introduction of the concept of effective revenue deficit, the Government could eliminate revenue deficit by March,2015, the Ministry in a written reply informed *inter-alia* as follows:-

"Effective Revenue Deficit reflects the structural component of imbalance in the revenue account. With the introduction of the concept of effective revenue deficit and by mandating its elimination by March,2015, government would address the structural component of imbalance in the revenue account, namely, consumptive expenditure, in the right earnest without sacrificing development related expenditure."

2.4 Asked about the strategy of the Government to improve the quality of fiscal adjustment, so that productive expenditure are not pruned out and unproductive expenditure are retained, the Ministry submitted a written reply as follows:-

"With re-prioritization of expenditure towards developmental side and curtailing the growth in non-developmental expenditure, total expenditure is projected to decline from 14.7 per cent of GDP in 2012-13 to 14.1 per cent in 2013-14 and 13.6 per cent of GDP in 2014-15. Notwithstanding above reduction in expenditure, plan expenditure is projected to be maintained at 5.1 per cent of GDP during those years as in BE 2012-13 and capital expenditure (including grants for creation of capital assets) is projected to increase from 3.6 per cent of GDP in BE 2012-13 to 3.9 per cent of GDP in 2014-15."

2.5 In this regard, the Ministry further added as under:-

"Ministry of Finance has been emphasizing the importance of phased quantitative expenditure management with focus on quality of spending and the achievement of outcomes in regular meetings with the Financial Advisors (FAs) of the line Ministries implementing the schemes. The Ministries concerned monitor the physical progress of the works through regular interactions with the concerned State's and obtain Utilisation Certificates-linking these to further releases. The qualitative aspects of the expenditure are also monitored through the outcome budgets and other performance indicators brought out by the line Ministries."

Expenditure Management:-

(i) **Classification of Expenditure**

2.6 The Standing Committee on Finance in their earlier Reports recommended the Government for bringing out reforms in the Budget 2012-13 itself as there are 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.,

2.7 When specifically asked about the steps taken by the Government on the above mentioned recommendation of the Committee, the Ministry in a written reply *inter-alia* submitted that:—

"…The recommendation of the Standing Committee on Finance ……has been accepted by the Government and necessary instructions have been issued to all Ministries/Departments for depicting the details of savings resulting from economic use of resources, non-utilisation/under-utilisation of funds due to non-implementation and delay in execution of projects/schemes and normal savings as a separate annexure in the Outcome Budgets of the Ministries/Departments from 2013-14 onwards."

2.8 On being enquired about the status of implementation of recommendations of the Experts Committee made on the issue of classification of Plan and Non-plan expenditures, and to review the List of Major and Minor Heads of Accounts, the Ministry in their written response stated *inter-alia* as follows:-

"The Expert Committee on Classification of Plan and Non-Plan Expenditures has submitted its report to Planning Commission and action from Planning Commission is awaited.

The Committee headed by Shri C. Sundaramurti, Controller General of Accounts, to review the List of Major and Minor Heads of Accounts (LMMHA), ….submitted its report to the Government on the 25th of January, 2012..…….The report has been circulated amongst Central Government Ministries/Departments and State Governments for comments."

(ii) **Balanced Pace of Expenditure**

2.9 Rush of expenditure towards the end of the financial year continues to be an area of concern. As per extant instructions issued by the Ministry of Finance, not more than one-third (33%) of the Budget Estimates may be spent in the last quarter of the financial year. A break-up of number of Grants whose expenditure exceeded 33% in the last quarter is given below:—

Description	2008-09		2009-10		2010-11	
	at BE	at RE	at BE	at RE	at BE	at RE
No. of Grants exceeded 33% in the last quarter	43	38	30	30	39	31

2.10 Some of the Ministries/Departments who have been incurring expenditure in excess of prescribed limit of 33% of BE/RE during the last three years are given below:—

Grant-wise Expenditure for Last quarter (on net basis)

Grant No.	Ministry/Department	2008-09		2009-10		2010-11	
		% to BE	% to RE	% to BE	% to RE	% to BE	% to RE
1	2	3	4	5	6	7	8
16/15	Department of Consumer Affairs	96%	59%	--	--	82%	55%
33	Department of Financial Services	--	--	--	--	95%	74%
39.	Pensions	50%	37%	61%	43%	34%	34%
41	Department of Revenue	41%	38%	36%	--	60%	43%

1	2	3	4	5	6	7	8
42	Direct Taxes	34%	--	--	--	37%	38%
55	Transfer to UT Govts.	42%	44%	53%	52%	--	--
80	Department of Rural Development	84%	46%	--	--	38%	--
41/9	Ministry of Civil Aviation	41%	73%	132%	59%	52%	56%
9/10	Ministry of Coal	54%	73%	55%	63%	72%	72%
26/27	Capital Outlay Services	77%	55%	44%	50%	45%	44%
28	Ministry of Development of North Eastern Region	--	53%	50%	50%	38%	38%
30/31	Ministry of External Affairs	65%	48%	36%	35%	--	36%
34	Interest Payments	36%	36%	37%	38%	35%	36%
72	Ministry of Petroleum & Natural Gas	45%	42%	446%	88%	711%	59%
100	Department of Urban Development	72%	42%	82%	49%	36%	--
200	Ministry of Railways	59%	45%	41%	39%	41%	36%
6	Department of Chemical and PetroChemicals	--	--	36%	49%	151%	38%
69	Ministry of Panchayati Raj	41%	49%	--	--	35%	35%
74	Ministry of Power	52%	53%	--	--	--	35%
91	Ministry of Steel	247%	75%	--	--	--	--
62	Ministry of Law & Justice	49%	45%	--	--	76%	55%

(iii) **Co-relation between Grants and Actuals**

2.11 The details of total allocation and expenditure as per appropriation accounts of some Ministries/Departments during the last five years are given below:—

(Rs.in crore)

Ministry/ Department of	2008-09		2009-10		2010-11 (provisional)	
	Total Grant	Total Expr.	Total Grant	Total Expr.	Total Grant	Total Expr.
Agriculture	15462.30	14342.44	17056.38	16499.09	25015.01	24217.52
Atomic Energy	9186.66	8483.87	11461.09	10777.70	11941.66	10057.23
Defence	29614.84	29202.40	38296.83	46966.78	47387.96	50261.76
Finance	2598897.39	2551236.07	3709184.21	3505087.65	3900244.46	3288539.39
Health and Family Welfare	20499.45	18767.37	24253.06	22570.71	27118.22	25915.37
Environment and Forests	1736.29	1711.29	2129.09	2021.71	2636.49	2608.91
Industry	2558.28	2354.99	1344.72	1093.76	2286.61	2126.54
Human Resource Development	53130.10	48026.53	59456.79	52636.44	72114.17	68113.69
Law and Justice	992.80	826.38	1805.29	1519.40	1077.78	976.51
Minority Affairs	1015.55	629.55	1756.50	1723.44	2615.37	2020.96
New and Renewable Energy	627.67	450.96	628.03	563.39	1008.52	994.80
Panchayati Raj	4781.25	3993.14	4780.07	3776.82	6690.71	6689.48
Petroleum and Natural Gas	79125.01	79090.35	26276.41	26272.42	38558.53	38537.14
Planning	654.83	92.70	519.00	157.29	2059.36	380.85
Power	6530.62	6246.01	12767.66	10105.74	16558.46	10761.15
Rural Development	101937.93	101314.44	134221.08	122694.47	161475.13	14348.66
Road Transport and Highways	29317.94	28335.13	33059.19	27968.67	38901.18	37358.46
Space	2484.02	2430.57	4959.04	4162.95	5778.04	4482.23
Textiles	6031.24	5687.77	12046.22	11743.76	13537.91	13046.90
Urban Development	6711.60	6469.22	7955.26	7780.11	8510.58	8346.50

2.12 To a specific query as to whether the Ministry of Finance strictly monitors the implementation of Monthly as well as Quarterly Expenditure Plans by the line Ministries, the Ministry submitted a post-evidence reply as follows:—

> "To obtain greater evenness in the budgeted expenditure within the financial year and reduce rush of expenditure during the last quarter of the financial year, the Ministry of Finance has identified 23 high spending ministries for the Modified Cash Management System (MCMS), an exchequer based expenditure management system introduced *w.e.f.* April 1, 2006.
>
> Further, …… the MCMS, has been extended to 23 more ministries/ departments *w.e.f.* 1st April, 2012. Ministries covered under this system prepare the Monthly Expenditure Plans as well as Quarterly Expenditure Allocation for the ensuing year. Any variation from the quarterly projection in these departments/ministries is done with the prior approval of Ministry of Finance.
>
> All the demands of the Government of India, are required to strictly adhere to the expenditure ceiling of 33% for the last quarter and 15% for the month of March every year and the cash additionalities provided in the last batch of supplementary grant are, however, exempt from these ceilings. The restriction is monitored at the highest level with explanation sought in case any Demand exceeds the prescribed limits of 33% for the last quarter and 15% for the month of March."

CHAPTER III

CREDIT TO AGRICULTURE

3.1 Adequate flow of credit to agriculture is one of the key factors for achieving agricultural growth, a prerequisite for inclusive growth, reduction of poverty levels, development of the rural economy and enhancing of farm incomes. On being asked, the Ministry, while listing out several measures taken by the Government, *inter-alia* informed about the availability of credit to farmers through banks, as under:—

> "……..The target for the credit flow to agriculture and allied sector had been fixed at Rs. 3,75,000 crore during 2010-11. Against this target, the total credit flow to agriculture by Public & Private Sector Commercial Banks (CBs), Cooperative Banks and Regional Rural Banks (RRBs) was of the order of Rs. 4,59,341 crore exceeding annual target by Rs. 84,341 crore. In the year 2011-12, as against the farm credit target of Rs. 4,75,000 crore, an amount Rs. 2,62,129 crore was disbursed upto October, 2011. For the year 2012-13, an increased target of Rs.5,75,000 crore has been proposed in BE.
>
> Amount released under Interest Subvention Scheme from Government of India to the lending Institutions for the year 2007-08, 2008-09, 2009-10 and 2010-11 are as under:
>
> (Rs. in Crore)

	2007-08	2008-09	2009-10	2010-11	RE 2011-12	BE 2012-13
Actual expenditure during the year.	1700	2600	2011	3531.19	4000.00 allocated (3227.52 cr. released upto 28th February, 2012)	6000.00

> 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. 3,00,085.00 crore in 2010-11, thereby registering an increase of 106.37%. Similarly, 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. 60,045.00 crore in 2010-11, thereby registering an increase of 112.60%.

The flow of credit to agriculture is steadily growing. However, some Banks are unable to achieve the given targets of share to agriculture credit... 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…."

Creation of exclusive corpus with lending shortfall funds for agriculture

3.2 The Standing Committee on Finance has been repeatedly emphasizing that diversion of lending shortfall meant for agriculture under priority sector targets/sub-targets for various funds, e.g. Rural Infrastructure Development Fund (RIDF) etc., created by the Government is neither tenable nor acceptable. Therefore, they recommended to create a corpus exclusively for the purpose originally intended. However, the Ministry has not accepted the recommendation of the Committee, and continuing depositing the shortfall to the above funds and are utilized for development of other related sectors.

3.3 When asked during oral evidence held on 26 March, 2012 as to why a separate fund, as recommended by the Committee, could not be set up and spent exclusively for agriculture sector, the Ministry has in their written response reiterated their earlier response as under:—

"…. the banks deposit the shortfall of the priority sector targets/ subtargets into RIDF which is used for development of agriculture and related sectors, social sectors and rural connectivity…..."

Re-classification of Priority Sector Lending

3.4 The Standing Committee on Finance in their earlier Reports recommended that the Committee constituted by the RBI should re-examine the existing classification of priority sector lending and reclassify suitably so that all sections/categories of weaker sections are evenly covered in financial inclusion.

The action taken on the above recommendation, as furnished by the Ministry, is given below:—

"As reported by RBI, the Committee has specifically examined the recommendations in the 44th Report of the 'Parliamentary Standing Committee on Finance on Demands for Grants (2011-2012)' on the above issue. However, the Committee is not favourably disposed to proposing fixation of specific sub-targets for individual categories of weaker sections, as multiplicity of targets would be extremely difficult to monitor and implement, given the large number of categories forming part of weaker sections.

The Committee has retained the existing target level of 10 per cent of ANBC under weaker sections for all domestic Scheduled Commercial Banks without any sub-target for individual categories of Weaker Sections. To enhance the coverage under weaker sections, the classification of Weaker Sections have been widened by including all priority sector advances to individual women beneficiaries and the housing loans advanced to Economically Weaker Sections (EWS) and Low Income Groups (LIG) under weaker sections…... The modified classification of weaker section recommended by the Committee is as under :

(a) Small and marginal farmers—including landless labourers, Oral lessees, tenant farmers and share croppers;

(b) Village & Cottage Industries and Artisans, irrespective of the location, where individual credit limits do not exceed Rs.1,00,000;

(c) Beneficiaries of Swarnjayanti Gram Swarozgar Yojana (SGSY) now National Rural Livelihood Mission (NRLM), Swarna Jayanti Shahari Rozgar Yojana (SJSRY) and Scheme for Rehabilitation of Manual Scavengers (SRMS);

(d) Scheduled Castes;

(e) Scheduled Tribes;

(f) Individual women beneficiaries;

(g) Housing loans granted to Economically Weaker Section and Low Income Groups;

(h) Advances to Self Help Groups;

(i) Loans to distressed poor to prepay their debt to informal sector;

(j) Loans granted under (a) to (i) above to persons from minority communities as may be notified by Government of India from time to time.

For the purpose of achievement of targets under weaker sections, achievement of not more than 6 per cent of ANBC will be reckoned for categories mentioned under sections (a) and (b) above. The Committee is of the opinion that certain categories under weaker sections are not mutually exclusive in terms of end beneficiaries and has, therefore, proposed that achievement of targets under weaker sections would be without any overlapping/double-counting."

CHAPTER IV

RECAPITALIZATION OF BANKS AND NON-PERFORMING ASSETS (NPAs)

4.1 For India to attain the GDP growth rate of 8%, the banking industry is said to have to grow at around 22% every year and to this effect banks will need a huge capital. Further, BASEL III is proposed to be implemented in a phased manner from 1 January, 2013 to 31 March, 2017 that may also entail additional capital. It is reported in a news item that the Public Sector Banks (PSBs) would require capital of more than Rs.3.9 lakh crore for expansion purposes to meet the capital adequacy norms.

4.2 Asked about the strategy of PSBs in meeting their capital requirements, the Ministry in their written response submitted, among other things, as follows:—

> "…The banks functioning in India, including the PSBs, are expected to keep a minimum Capital to Risk-weighted Assets Ratio (CRAR) of 9 per cent. The minimum Tier I CRAR is expected to be 6 per cent. Under the Supervisory Review and Evaluation Process (SREP), the Reserve Bank may take appropriate measures which may also include the stipulation of a bank-specific minimum CRAR that could potentially be even higher, if so warranted by the facts and circumstances, than the regulatory minimum stipulated above.
>
> For achieving the desired level of CRAR, the banks may increase the capital by issuing fresh equity capital and also through retention of profit. In addition the banks have been given the freedom to raise regulatory capital ……….
>
> The board of PSBs are authorised to raise fresh Tier I and Tier II capital depending on the need, growth prospects and risk profile of the respective bank. As Government is statutorily bound to keep a minimum holding of 51 per cent in PSBs, a major portion of the equity funding to these banks is from the Government.
>
> The CRAR of the PSBs as on March 31, 2011 reduced to 13.1 per cent from 13.3 per cent as on March 31, 2010. A further reduction was expected in the financial year 2011-12. It has also been decided by the Government that the public sector banks would maintain a Tier I CRAR at 8 per cent. In view of the above, during the year 2011-12, 07 PSBs propose to raise Rs. 12000 crore by way of preferential allotment of equity share to Government of India

and 14 PSBs have proposed to raise Rs.7240.32 crore by way of preferential allotment of equity share to Life Insurance Corporation of India."

4.3 When asked as to whether the need for recapitalisation of PSBs during the years 2011-12 and 2012-13 is due to increase in NPAs or to meet the additional requirement to maintain 8% tier I CRAR and compliance to upcoming BASEL-III norms, the Ministry informed the Committee in a written reply as under:—

"During the financial Year 2011-12, recapitalisation of PSBs to the tune of Rs.12,000 crore is mainly to maintain their tier-I CRAR at 8% in accordance with Government of India commitment as against regulatory requirement of 6% and BASEL-II requirement of 4%; and also with a long term objective to keep PSBs in readiness for compliance to impending BASEL-III guidelines on capital adequacy.

With the aforesaid objective in mind, a provision of Rs.14,588 crore has been made in Financial Year 2012-13.

The implication of NPAs on capital adequacy is that it results in higher provision thereby reducing profit plough back which in turn adversely affect the capital adequacy."

4.4 The Government is also considering the possibility of creating a financial holding company which will raise resources to meet the Capital requirements of Public Sector Banks.

Non-Performing Assets (NPAs)

4.5 NPAs, especially in case of retail loans, continue to rise and sharply in some instances, like at Punjab National Bank, where they were up 42% year-on year growth in December, 2011. The ratio of recoveries to NPAs has dropped to less than 29% in 2010 from around 41% in 2008. At system level, new accretion to NPAs has been much faster than the reduction in existing NPAs due to lower levels of upgradation and recoveries. Also, despite write-offs, Gross NPAs have continued to rise significantly. It is reported that there is an increase in restructured assets of Banks. At SBI, for instance, these stood at over Rs.8000 crore in December 2011, an amount similar to that in the September, 2011 quarter.

4.6 It is in this background, when specifically asked as to how does the PSBs propose to manage the delinquency risks and quality of portfolio, especially when the efforts are directed towards financial inclusion and the expected rise in bankable population, the Ministry in a written reply responded as follows:—

> "The Gross Non-Performing Assets (GNPA) as at the end of March, 2011 decreased marginally to 2.25% from 2.39% at end-March 2010 before increasing to 2.80% at the end of September 2011. Recent trends in asset quality, though show some deterioration in case of some major banks, at a system level, the GNPA ratio of scheduled commercial banks do not indicate any systemic vulnerability.
>
> The recent trends of some deterioration in asset quality could be attributed to the adverse impact of the global financial crisis and the present economic situation in certain jurisdictions in Europe…… However, banks are already sensitized to closely watch the NPA position and the same is also monitored regularly by Department of Banking Supervision, Reserve Bank of India…….
>
> ……..For the revival of the viable entities as well as for the safety of the money lent by the banks, timely support through restructuring in genuine cases is called for. The objective of restructuring is to preserve the value of viable entities that are affected by certain internal and external factors and minimize the losses to the creditors and other stakeholders.
>
> …….there is no dilution of prudential guidelines for implementation of Financial Inclusion and therefore, it is not likely to affect the asset quality of the banks."

CHAPTER V

FINANCIAL INCLUSION

5.1 The objective of Financial Inclusion is to extend financial services to the large *hitherto* unserved population of the country to unlock its growth potential. In addition, it strives towards a more inclusive growth by making financing available to the poor in particular.

5.2 The Government had constituted two Funds, *viz.* Financial Inclusion Fund to ensure access to financial services and timely adequate credit facility to 649.54 lakh farmer-households through meeting the cost of developmental and promotional interventions for ensuring financial inclusion, and 'Financial Inclusion Technology Fund (FITF)' to meet the cost of technology adoption. The funds are housed in NABARD and consist of an overall corpus of Rs.500.00 crore to be contributed by the Government of India (GoI), RBI and NABARD in the ratio of 40:40:20 in a phased manner over five years depending upon utilization of funds. Accordingly, an amount of Rs.10.00 crore each for these two Funds was released to NABARD in 2007-08 as initial contribution of GoI for creation of these two Funds. In 2009-10, 2010-11 and 2011-12 also, a sum of Rs.10 crore each for these two Funds was released to NABARD. A provision of Rs.20 crore for FIF and Rs.30 crore for FITF is proposed in BE 2012-13.

5.3 The Standing Committee on Finance in their earlier reports repeatedly expressed their view that instead of venturing into frequent tinkering with the Business Correspondents/Business Facilitators (BCs /BFs) model, conducting an evaluation/viability study of BCs/ BFs model is the need of hour, and recommended the Government to explore other viable alternatives such as utilizing the services of postal network in achieving financial inclusion to a greater extent.

Action taken reply on the recommendation of the Committee, as furnished by the Ministry is given below:—

> "To provide banking to the poor in remote villages, banks were permitted by Reserve Bank of India (RBI) since 2006 to use the services of Business Correspondents (BCs) who act as agents of the banks in the villages. …. over 62,000 such villages have been covered, 49,871 Business Correspondents have been engaged by banks and 2.55 crore Financial Inclusion Accounts opened upto 31st January, 2012 under this financial inclusion campaign.

To review the Business Correspondent Model, the Reserve Bank of India had constituted a Working Group, which submitted its report in August 2009. The Group, *inter-alia,* examined the ways for improving the BC model and suggested additional entities that could be considered as BCs. From September, 2010 banks have been permitted to engage individuals/entities as BC like retired bank employees, retired teachers, retired government employees, agents of Small Savings Schemes of Government of India/Insurance Companies etc.

The Government has also issued detailed Strategy and Guidelines on Financial Inclusion in October, 2011, *inter-alia*, advising banks to define Service Area in terms of Gram Panchayat, to appoint an existing entrepreneur as BCA……as Business Facilitators…..It is expected that with the proper implementation of these guidelines, the viability of BC Agent will certainly improve……

As regards using the services of postal network, RBI has already permitted Post Offices under the list of entities to be engaged as Business Correspondents by bank".

5.4 According to a news item, the Government is suggesting banks not to open strictly brick-and-mortar branches in the unbanked areas, which may not turn out to be commercially viable and rather have bank presence through banking correspondents and use of technology.

Village Adoption Scheme of Banks

5.5 The Standing Committee on Finance in their 33rd report recommended for fixing of time-bound targets for the village adoption scheme of banks. The action taken reply as received from the Ministry is given below:—

"Public Sector Banks are not required to adopt different villages for development as part of any policy guidelines. However, individual banks with the approval of their Boards, adopt villages for development as part of good corporate governance practices. Thus, there are no specified targets given by Government for adoption of villages by banks, in this regard. However, as part of the Service Area Approach, banks were allocated specific villages to their designated branches, generally in geographically contiguous areas. The over all development and the credit needs of these villages were to be taken care of by the respective branches. Subsequently, as it was observed that service area restrictions were a limiting factor for credit deployment, the restrictive provisions were removed in 2004, except for the Government Sponsored programmes…"

CHAPTER VI

DISINVESTMENT

6.1 The Department of Disinvestment deals *inter-alia* with all matters relating to disinvestment of Central Government's equity from Central Public Sector Enterprises (CPSEs). On being asked about the philosophy/objective of disinvestment, the Ministry in a post-evidence reply stated that:—

> "The objective of the disinvestment is to promote people's ownership of CPSEs while retaining at least 51% of equity and management control with the Government. Disinvesting Government equity in CPSEs through Initial Public Offerings, triggers multilayered oversight mechanism to enhance corporate governance as well as provides for level paying field to CPSEs *vis-à-vis* private companies in regard to accessing the resources through the capital market. The process enhances shareholder value. The transparency and corporate governance improves. Disinvestment of Government holding in a CPSE invariably tends to augmentation of capital receipts and that enables Government to redeploy resources from areas where private resources can flow into those sectors where they are needed to sustain economic growth. Improving the functioning of CPSEs is a continuous exercise and all efforts by the Administrative Ministries through their representatives on the Board of Directors of the CPSEs are made to improve the performance. The performance of the CPSEs is also monitored by the Administrative Ministries, the Department of Public Enterprises by way of MoU".

6.2 The budgeted targets for disinvestment receipts and the amounts realized through disinvestment in CPSEs during the last three years *i.e.* 2009-10, 2010-11 and 2011-12(as on date) with the reasons for not meeting the target as furnished by the Ministry are given below:—

Year	Budgeted Targets (Rs. In crore)	Proceeds from Disinvestment (Rs. In crore)
2009-10	No target fixed	23552.93
2010-11	40000.00	22144.21
2011-12	40000.00	13894.07
2012-13	30000.00	

Meeting the disinvestment target in a particular year depends on positive culmination of three set of procedures mentioned below:

(i) Authorization: by the Board of Directors of the CPSE, the Administrative Ministry, and finally the Cabinet.

(ii) Compliance: procedures in preparation for disinvestment.

(iii) Professional Market inputs: that includes professional marketing including road-shows and advice about the markets.

The reasons for not meeting the disinvestment target are:

(i) Volatility in the stock market would have impacted realization. Between December 2010 to December 2011 the Sensex had fallen from 20,509 to 15,455, *i.e.* a fall of 5055 points (24.65%).

(ii) At times regulatory approvals took a lot of time.

(iii) The procedural aspects like Due Diligence at the Company's end took quite some time.

(iv) Appointment of Independent Directors.

The roadmap for disinvestment during 2012-13 is in the final stages. For this purpose the Department has detailed discussions with Administrative Ministries and the CPSEs concerned. If no unforeseen problems are faced like excessive volatility in the stock market, the Department is confident of achieving the disinvestment target of Rs. 30,000 crore for the year 2012-13".

6.3 The disinvestment proceeds are being used for funding the capital expenditure under the social sector schemes of the Government, namely:—

(i) Mahatma Gandhi National Rural Employment Guarantee Scheme;

(ii) Indira Awas Yojana;

(iii) Rajiv Gandhi Gramin Vidyutikaran Yojana;

(iv) Jawaharlal Nehru National Urban Renewal Mission;

(v) Accelerated Irrigation Benefits Programme; and

(vi) Accelerated Power Development Reform Programme.

6.4 Allocations made from disinvestment receipts on identified social sector schemes in BE/RE 2011-12 and BE 2012-13 is given below:—

(Rs. in crore)

Sl. No.	Name of the scheme	BE 2011-12	RE 2011-12	BE 2012-13
(i)	Accelerated Irrigation Benefits Programme (AIBP)	4656.00	1942.76	4434.00
(ii)	Jawaharlal Nehru National Urban Renewal Mission (JNNURM)	3076.00	1284.22	2931.00
(iii)	Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY)	5000.00	2086.04	4761.00
(iv)	National Rural Employment Guarantee Scheme (NREGS)	18768.00	7831.53	17874.00
(v)	Indira Awas Yojana (IAY)	8448.00	--	--
	Total	29938.00	13144.55	30000.00

Note: The expenditure on the schemes during 2011-12 will be known after compilation of accounts for the year 2011-12.

6.5 During the year 2011-12 apart from disinvestment of Power Finance Corporation Ltd., disinvestment of 5% paid-up equity capital of the Oil and Natural Gas Corporation Ltd. (ONGC) out of Government shareholding through a further Public Offer in domestic market was achieved. Government of India shareholding has come down from 74.14% to 69.14%. Government realized an amount of Rs.12749.52 crore. To a specific query asked during oral evidence held on 26 March, 2012 as to whether the LIC had been forced to acquire shares in recent sale of equity of ONGC, the Ministry has furnished a written reply as follows:—

> "It is not correct that LIC was forced to rescue ONGC stake sale at 3.29 p.m. LIC is a continuous buyer of ONGC shares and before the Offer for Sale (OFS) their shareholding in ONGC was 5.067 per cent. The formulation that LIC was forced is not fair to the goodwill of LIC either. LIC has to comply with its internal procedures before taking any investment decisions and cannot just put their bid, if someone wants it at the last moment.

> LIC is a dominant domestic player in the capital market and normally makes big investments in public offerings, be it from private sector or Government sector. Even by global size, LIC is a formidable investor and if only a few foreign investors are found to compete with it, it should not be taken adversely".

6.6 To a further query as to whether buy back of shares and crossholding are healthy for the investors of Public Sector Undertakings as well as stakeholders of the investing PSUs, the Ministry submitted a written reply as under:—

> "The recent decisions to enable Department of Disinvestment to events like, the buyback or the CPSEs buying the shares of other CPSEs from Government are only enabling provisions. The decision to buyback or buy the shares of other CPSEs are entirely on the wisdom of the CPSEs."

PART II

RECOMMENDATIONS/OBSERVATIONS OF THE COMMITTEE

ANALYSIS OF DEMANDS FOR GRANTS

1. While examining the Demands for Grants (2012-13) of the Ministry of Finance, the Committee note that in Demand No.32 of the Department of Economic Affairs there is significant and persistent variation between Budget Estimates (BE), Revised Estimates (RE) and Actuals year after year. In the year 2009-10, the BE of Rs. 13,400.07 crore was steeply increased to Rs. 22,350.76 at RE but amount spent was Rs. 9,947.13 crore only. In the subsequent year 2010-11, the Ministry spent Rs. 16,896.96 crore against BE of Rs. 8,671.48 and RE of Rs. 8,671.73 crore. For the year 2011-12, the BE of Rs. 21,632.22 crore was reduced to Rs. 20,752.43 crore at RE stage. However, the Ministry could incur only Rs. 14,501.06 crore till December, 2011.

2. Similarly, the scrutiny of Demand No.33 of the Department of Financial Services also reveals significant absence of correlation between BE, RE and Actuals. As against RE of Rs. 41,117.85 crore which was increased from BE of Rs. 38,413.54 crore, the Ministry could incur only Rs. 37,864.82 crore. In the next year 2010-11, BE of Rs. 49,609.10 crore was increased substantially to Rs. 60,236.77 crore but the Ministry ended up utilizing Rs. 57,425.37 crore only. During the year 2011-12, though the BE of Rs. 23,705.94 crore has been marginally reduced to Rs. 21761.97 crore, the Ministry has spent a meager Rs. 2,984.57 crore only till December, 2011 leaving around 87 per cent of funds to be expended in the last quarter of the financial year. What is more alarming is that the provisions made in BE under the non-plan scheme namely, "Revival of Long-Term Cooperative Credit Structure (LTCCS)" of Rs. 1,000 crore each in the years 2009-10, 2010-11 and 2011-12 was subsequently surrendered due to delay in finalization of the package. Again for the year 2012-13, a sum of Rs. 500 crore has been proposed in BE. Such a glaring trend is indicative of serious shortcomings in formulating the Budget Estimates and ineffectiveness in monitoring utilization of budgeted funds. The Ministry of Finance, being the nodal Ministry of Budgetary Management, cannot be expected to violate the norms of budget discipline which they seek to impose on other Ministries. The Committee, therefore, recommend the Ministry to take corrective measures to arrest such an unscientific trend of projection of fund requirements and for ensuring an objective and realistic formulation of budget estimates and balanced utilization of funds.

3. The Committee note that provision of initial package for capital expenditure of the Security Printing and Minting Corporation of India Ltd. (SPMCIL) to the tune of Rs.1,200-1,500 crore was decided way back in the year 2005, and later reduced to Rs.930 crore. However, the first instalment of Rs.400.00 crore provided in BE 2011-12 was surrendered *in toto* due to delay in completion of required appraisal/ formalities. The Committee, while strongly disapproving of providing such huge amount in BE, pending finalization of processes and procedures, urge the Ministry to avoid such ritualistic allocations, which remain only on paper. Moreover, since the SPMCIL is a profit making miniratna category-I company, it would be reasonable to expect the SPMCIL to mobilize the required resources for its programme without depending on budgetary support.

Release of funds for Central Assistance Schemes

4. The Committee note that through the Demand No.35 the Department of Expenditure has made a provision of Rs.1,75,930.46 crore in BE 2012-13 against the allocation of Rs.1,45,943.41 crore during the previous year for the Central Assistance to States for Plan schemes, and Grants to States. So far as the trend of utilization of outlay earmarked at BE stage is concerned, it has been observed that funds released remain grossly underutilized year after year under most of the Central Assistance Schemes such as Nutrition Programme for Adolescent Girls (NPAG), Additional Central Assistance for externally aided projects, National E-Governance Action Plan (NEGP), Special Central Assistance-Hill Areas, Accelerated Irrigation Benefit Programme & other Water Resources Programme, National Social Assistance Programme including Annapurna, Jawaharlal Nehru National Urban Renewal Mission (JNNURM) and Additional Central Assistance for drought mitigation in Bundelkhand Mission. The reasons advanced by the Ministry for such shortfall mainly relate to mismatch between the funds earmarked and the amount recommended for release by the nodal Ministries to States, delay in receiving proposals from the nodal Ministries and fulfillment of requisite conditions. The Committee also find that there is overlapping of expenditure Heads between the line Ministries and the Department of Expenditure. For instance, while funds for State component of BRGF are being allocated through Demand No.35, the District component is through the Demand of the Ministry of Panchayati Raj. The Committee, therefore, are of the considered view that since the funds for Central Assistance Schemes are released to States based on the recommendation of the line Ministries, the Demand for these funds may be raised through Demands of the nodal Ministries concerned instead of through Demand No.35 by the Department of Expenditure. The Committee believe that this would pave way for decentralization of financial management, better assessment/ projection

and timely release of funds and utilisation, saving of resources and focussed monitoring of implementation of the schemes by the nodal Ministries. The Committee desire that instead of resorting to allocation exercise, the Department of Expenditure should focus on carrying out its principal activity of overseeing public expenditure management including quality of development expenditure at a time when the Government is striving for fiscal consolidation. The Committee, therefore, recommend the Government that Demands for funds for Central Assistance Schemes and State Plan Schemes should be raised in the respective Demand of the nodal Ministry from 2013-14 onwards instead of the Demand being operated by the Department of Expenditure.

5. The Committee note that through Demand No.35 – Transfers to State and Union Territory Governments, the scheme namely, Jawaharlal Nehru National Urban Renewal Mission (JNNURM), has been provided increased allocation of Rs.12,522 crore in BE 2012-13 over RE 2011-12 of Rs.7450 crore. The Committee note that the JNNURM is being implemented in 63 cities / urban agglomerations based on the population of 2001 census for seven years till March, 2012. The JNNURM is stated to be extended for another two years. The Committee recommend that instead of short-term extension, the Government should restructure the JNNURM and extend it to more cities, towns and urban agglomerations as per 2011 census. In this regard, the Committee would like the Ministry to ensure that the implementing agencies at the ground level have the requisite machinery and skilled manpower to fully utilize the allotted funds. They would also like to emphasise that the views of the Members of Parliament are considered by the implementing agencies.

Fiscal consolidation

6. The Committee note that the Government remains ambitious of achieving the fiscal deficit target of 5.1 percent in 2012-13 mainly on the basis of mobilization of additional resources through indirect tax proposals. The Committee in their earlier Report had expressed their reservation over the Government's fiscal roadmap without specifying the action plan to achieve the same. This year again there does not appear to be much room for fiscal confidence, as hopes have been pinned on higher revenue mobilization without any concrete proposals to contain or rationalize expenditure. The expected higher revenue generation is again hitched to higher GDP growth, which may not materialize as projected due to persistent inflationary risks. Further, doubts over achieving the fiscal deficit target also emerge owing to factors like the Government's huge borrowing programme, widening current deficit account, unabated trade deficit, continuing rise of inflation particularly on the food front, depleting foreign investment, shortfall in tax collection and failure in achieving

the disinvestment target etc. Thus, the Committee apprehend that the possibility of occurrence of fiscal slippages again in the year 2012-13 is distinct. The Committee, therefore, desire that the Government should chalk out their fiscal roadmap in concrete terms to achieve the desired outcomes.

Classification of Expenditure

7. The Committee are happy to note that the Government, in the wake of recommendation of the Standing Committee, would implement the budgetary reforms such as distinguishing and depicting the details of savings resulting from economic use of resources etc. and normal savings in the Outcome Budgets of the Ministries/ Departments from 2013-14 onwards. The Committee also note that the recommendations of the Expert Committees on classifications of Plan and Non-plan expenditures, and to review the list of major and minor Heads of accounts are under consideration of the Government. In this context, the Committee desire that in consonance with the effort of the Government in addressing the structural component of imbalance in the revenue account, namely consumptive expenditure, without sacrificing development related expenditure, the Government may accordingly review the present classification of Plan and Non-plan expenditures and consider reclassifying the same broadly as Developmental and Non-Developmental Expenditure.

Utility of the Outcome Budget

8. The Committee find that the Outcome Budget which was introduced in 2005-06 is not as transparent and purposeful as it ought to be. For instance, it does not provide and capture information like cost and time overruns/timelines, cumulative allotment and actuals, monthly as well as quarterly expenditure plans and achievement thereof etc. Further, since most of the schemes are unable to deliver the targeted outcome within the prescribed timelines, it is more than evident that the Outcome Budget has not achieved its intended objective of enhancing quality of all the schemes by shifting the focus from outlay to outcomes. The Committee, therefore, recommend the Government to review the utility of the Outcome Budget and bring in necessary reforms in order to make it more transparent and meaningful so as to achieve its intended objective. It should also clearly indicate whether certain programmes/schemes can be reviewed comprehensively. The information made available to Parliament through Outcome Budgets should thus illustrate the realistic performance of schemes and the reasons for their failure.

Expenditure Management

9. The Committee are alarmed to note that as much as 43 Ministries/Departments in the year 2008-09, 30 in the year 2009-10 and 39 in the year 2010-11 including the Ministry of Finance had violated the Guidelines related to Expenditure Management for achieving the balanced pace of expenditure, particularly in the last quarter of the financial year. The excess of prescribed limit of 33 per cent in the last quarter reaches its peak of 711 per cent in the year 2010-11 by the Ministry of Petroleum & Natural Gas. In addition, the Departments of Chemical and Petro-Chemcials, Financial Services and Consumer Affairs have also breached the limit to the extent of 151%, 95% and 82% respectively in the year 2010-11. Further, absence of correlation between the total Grants and Actuals persists amongst most of the Ministries/Departments year–after-year. Shockingly, the Actuals of the Ministry of Defence exceeded the Grants allotted to it consecutively in the years 2009-10 and 2010-11. The Committee strongly convey their disapproval of such an erratic expenditure management by the line Ministries and lackadaisical attitude of the Ministry of Finance towards them. The Committee, therefore, recommend the Ministry of Finance to review the methodology of monitoring the progress of expenditure and strengthen the mechanism to avoid rush of expenditure in the last quarter. In this context, the Committee would recommend that the Ministries may be classified and rated based on their overall performance with reference to timely utilization of budgeted funds and progress in implementation of schemes etc. This would motivate the better performing ministries and induce others to emulate them.

Credit to Agriculture

10. The Committee note that availability of adequate credit to agriculture sector is *sine-qua-non* for achieving the agricultural growth as well as inclusive growth. The Government has, proposed higher target of Rs.5,75,000 crore in BE 2012-13 over previous year's target of Rs.4,75,000 crore. However, it is a matter of serious concern for the Committee that the target of agriculture credit has been consistently under-estimated over the years. For instance, in the year 2009-10, as against lesser target of Rs.3,25,000 crore, the credit disbursed was to the tune of Rs.3,84,514 crore. An increased credit disbursement of Rs.4,59,341 crore was done in the year 2011-12 as against the target of Rs. 3,75,000 crore. The Committee feel that the target flow to agricultural credit should match the increasing demand. The Committee, therefore, recommend that instead of resorting to huge revision of target during the financial year, a realistic target of credit flow to agriculture should be fixed. Further, it should be ensured that deserving farmers in rural areas are well covered in the credit target and are not marginalized by the bigger borrowers. It should

also be ensured that a specific target is fixed for financially weaker tenant farmers and direct release of credit to them should be made.

Creation of Corpus with lending shortfall under Priority Sector Lending

11. The Committee has been repeatedly emphasizing the creation of a corpus exclusively with lending shortfall meant for agriculture under priority sector lending as the extant practice of diverting them into various funds and utilizing for development of other related sectors of agriculture is neither tenable nor acceptable. The Committee note that the Ministry of Finance (Department of Financial Services) has failed to address the specific issue raised by the Committee. The Committee are unable to comprehend as to what prevents the Government from creating a exclusive corpus as recommended by the Committee. The Committee, therefore, while reiterating their earlier recommendation, expect the Government to furnish a specific reply within a month from the date of presentation of this Report.

Reclassification of Priority Sector Lending

12. The Committee constituted by the RBI for reclassification of priority sector lending target recommended *inter-alia* for widening the classification of weaker sections under Priority Sector Lending. However, they did not find favour with the recommendation of the Standing Committee on Finance regarding fixation of specific sub-targets for individual categories of weaker sections, on the ground that it would be extremely difficult to monitor and implement, given the large number of categories forming part of weaker sections. The Committee are of the considered view that absence of such sub-classification may entail exclusive growth rather than inclusive growth, thereby marginalizing the already marginalized in disbursement of credit. The Committee, therefore, reiterate their recommendation that in the interest of weaker sections subtargets should be fixed for them under Priority Sector Lending. They should also maintain state-wise data of disbursement of credit under Priority Sector Lending so as to reflect and address the prevailing regional imbalances.

Re-capitalisation of banks and NPAs

13. The Committee are concerned to note that at a time when the public sector banks are expected to expand their reach, they are passing through a difficult phase of capital inadequacy and rising NPAs, the combination of which may prove to be damaging for the banking system. While the equity funding by the Government would lessen the capital burden of public sector banks, the Committee are apprehensive as to how the Government, which is on the path of fiscal consolidation, would find money for infusing funds into banks.

The Committee can only hope that the proposed creation of financial holding company would help meet the capital requirements of public sector banks. The Committee would like to be kept apprised in the matter. On the question of rising NPAs, the Committee do not find merit in the oft-repeated contention that rise in NPAs was mainly due to global financial crisis. Prudence in lending policies may also be reckoned as a factor behind this increasing trend. The Committee, therefore, desire to be apprised of the effectiveness of measures taken by the Government / RBI / banks in arresting the growth of NPAs, particularly the restructured assets of banks. A factual report in this matter may be furnished to the Committee within one month of the presentation of the Report.

Financial Inclusion

14. Instead of venturing into evaluation / viability study of Business Correspondents (BCs) / Business Facilitators (BFs) model, which came into existence in the year 2006, as recommended by the Committee for achieving financial inclusion to a greater extent, the Ministry have been indulging in frequent revision of the model. The lack of seriousness of the Government can also be gauged from the fact the it has contributed so far Rs.130.00 crore only during the prescribed timelines of 5 years, as against its share of Rs.200.00 crore into an overall corpus of the two funds *viz.* Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF) constituted in 2007-08. Another concern is that the banks could cover about 62,000 villages only till January, 2012 as against the target of 73,000 villages by March, 2012. What is equally disturbing is that the Government has proposed to close unviable banks in the rural sector. The Committee would like to emphasize that the rural branches should be considered as a 'service centre' not only a 'profit centre'. The Committee, therefore, while reiterating their earlier recommendation to critically evaluate the BCs/BFs model and the effectiveness and impact of financial inclusion measures initiated since 2006, urge the Government to explore the possibilities of making unviable rural branches into viable ones by extending and strengthening financial services and unlocking its growth potential. As a part of financial inclusion and fulfilling corporate social responsibility, the Committee would also urge all the banks including private and foreign banks to fix target for their village adoption scheme as is being done by the Public Sector Undertakings (PSUs).

Disinvestment

15. The Committee note that consecutively for two years *i.e.* in 2010-11 and 2011-12 the Government has failed to achieve the disinvestment targets of Rs. 40,000 crore and ended up realizing Rs. 22,144.21 crore and Rs. 13,894.07 crore only respectively. As a result,

the estimated allocation of disinvestment proceeds for capital expenditure in respect of selected social sector schemes could not be made available. Major reasons attributed by the Ministry for failure in meeting the target like delay in completion of procedural aspects like authorisation, regulatory approvals etc. could have been easily avoided, had the Government formulated a coherent Disinvestment Policy with clear direction and vision, as recommended by the Committee in their earlier Reports. Despite repeated failure in realizing the targeted disinvestment proceeds and in the absence of Disinvestment Policy, the Government appears to be unduly confident of achieving the reduced disinvestment target of Rs. 30,000 crore fixed for the year 2012-13. The Committee cannot but conclude that the objective of disinvestment has been reduced to merely deficit-bridging exercise and treating the Central Public Sector Enterprises (CPSEs) as "milching cow", without using it as a long-term instrument to improve the functioning of PSUs. In this connection, the Committee express their disapproval of the manner in which the recent disinvestment of Oil and Natural Gas 54 Corporation (ONGC) has been dealt with; it was nothing but mere financial engineering to shift money from one pocket of the exchequer to the other. It has been reported that owing to risk factors associated with the recent acquisition of shares of ONGC by the Life Insurance Corporation of India (LIC), 29 crore policy holders of LIC are likely to be adversely affected. The Committee would, therefore, recommend that the Insurance Regulatory and Development Authority (IRDA) should enquire into this issue and investigate as to whether the LIC has violated any prudent investment norms and exceeded the limit stipulated by them. The Committee would in the larger context recommend that the Government should formulate a coherent and effective disinvestment policy without diluting the objectives for which the CPSEs have been set up.

New Delhi;	YASHWANT SINHA,
20 April, 2012	*Chairman,*
31 Chaitra,1934 (Saka)	*Standing Committee on Finance*

APPENDICES I

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

The Committee sat on Monday, the 26th March, 2012 from 1500 hrs. to 1745 hrs.

PRESENT

Shri Yashwant Sinha — *Chairman*

MEMBERS

Lok Sabha

2. Shri Shivkumar Udasi
3. Shri Harishchandra Deoram Chavan
4. Shri Bhakta Charan Das
5. Shri Nishikant Dubey
6. Shri Chandrakant Khaire
7. Shri Bhartruhari Mahtab
8. Shri Prem Das Rai
9. Dr. M. Thambidurai

Rajya Sabha

10. Shri Mahendra Mohan
11. Dr. Mahendra Prasad

SECRETARIAT

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

PART I

(1500 hrs. to 1620 hrs.)

WITNESSES

MINISTRY OF FINANCE

Shri R.S. Gujral, Finance Secretary

Department of Economic Affairs

1. Shri R. Gopalan, Secretary
2. Dr. Kaushik Basu, Chief Economic Adviser

Department of Expenditure

1. Shri Sumit Bose, Secretary, Expenditure
2. Shri C.R. Sunderamurti, Controller General of Accounts
3. Smt. Anjuli Chib Duggal, Additional Secretary
4. Shri Bimal Julka, Addl. Secretary & DG (DOC)
5. Dr. Alok Sheel, Joint Secretary
6. Shri Rajesh Khullar, Joint Secretary
7. Shri H. Pradeep Rao, Joint Secretary & FA
8. Smt. Madhulika P. Sukul, Joint Secretary
9. Smt. Meena Aggarwal, Joint Secretary
10. Shri Venu Rajamony, Joint Secretary

Department of Financial Services

1. Shri D.K. Mittal, Secretary
2. Shri Umesh Kumar, Joint Secretary
3. Shri Alok Nigam, Joint Secretary
4. Shri Arvind Kumar, Joint Secretary
5. Shri Anurag Jain, Joint Secretary
6. Dr. A. Bhattacharya, Joint Secretary

Department of Disinvestment

1. Shri Mohd. Haleem Khan, Secretary
2. Shri Sidhartha Pradhan, Additional Secretary

3. Shri Alok Tandon, Joint Secretary

4. Shri H.P. Rao, Joint Secretary & Financial Adviser

5. Shri Pramod Agrawal, Joint Secretary

2. The Committee took oral evidence of the representatives of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment) in connection with examination of Demands for Grants (2012-13) of the Ministry and issues connected therewith. The major issues discussed during the evidence included variation in Non-Tax Revenue and debt servicing etc.; release of grants to States; Centralised monitoring of expenditure/physical progress; disinvestment target and policy; utilisation of proceeds of disinvestment; correlation between BE and Actuals; classification of surrender/savings, plan/non-plan expenditures; Zero-Based Budegting (ZBB); austerity measures in the Government of India; growth rate and Inflation; subsidies and fiscal consolidation; rising Government's borrowing and flow of private investment; investment in agriculture sector as well as remunerative prices for farmers; lending to agriculture; capitalisation of public sector banks and Non-Performing Assets (NPAs); financial inlcusion, etc. The Chairman directed the representatives of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Service and Disinvestment) to furnish written replies on the points raised by Members within a week.

The witnesses then withdrew.

PART II

(1630 hrs. to 1745 hrs.)

WITNESSES

XX	XX	XX	XX
XX	XX	XX	XX

A verbatim record of proceedings was kept.

The witnesses then withdrew.

The Committee then adjourned at 1745 hours.

APPENDICES II

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

The Committee sat on Friday, the 20th April, 2012 from 1130 hrs. to 1400 hrs.

PRESENT

Shri Yashwant Sinha — *Chairman*

MEMBERS

Lok Sabha

2. Shri Gurudas Dasgupta
3. Shri Nishikant Dubey
4. Shri Chandrakant Khaire
5. Dr. Kavuru Sambasiva Rao
6. Shri Rayapati S. Rao
7. Shri Yashvir Singh
8. Dr. M. Thambidurai

Rajya Sabha

9. Shri Satish Chandra Misra
10. Dr. K.V.P. Ramachandra Rao

SECRETARIAT

1. Shri A.K. Singh — *Joint Secretary*
2. Shri Ramkumar Suryanarayanan — *Deputy Secretary*
3. Smt. Meenakshi Sharma — *Deputy Secretary*
4. Shri Kulmohan Singh Arora — *Under Secretary*

PART I

(1130 hrs. to 1300 hrs.)

WITNESSES

2. XX XX XX XX

A verbatim record of proceedings was kept.

The witnesses then withdrew.

PART II

(1300 hrs. to 1400 hrs.)

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

(i) Draft Report on Demands for Grants (2012-13) of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment);

(ii) Draft Report on Demands for Grants (2012-13) of the Ministry of Finance (Department of Revenue);

(iii) Draft Report on Demands for Grants (2012-13) of the Ministry of Planning;

(iv) Draft Report on Demands for Grants (2012-13) of the Ministry of Statistics and Programme Implementation; and

(v) Draft Report on Demands for Grants (2012-13) of the Ministry of Corporate Affairs.

4. The Committee adopted the draft reports at Sl. Nos. (iv) and (v) without any modification and those at Sl. Nos. (i), (ii) and (iii) 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.