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**STANDING COMMITTEE ON FINANCE
(2015-16)**

SIXTEENTH LOK SABHA

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

*[Action taken by the Government on the recommendations contained in Tenth Report of the
Standing Committee on Finance on Demands for Grants (2015-16)]*

TWENTY-SECOND REPORT



**LOK SABHA SECRETARIAT
NEW DELHI**

December, 2015 / Agrahayana, 1937 (Saka)

TWENTY-SECOND REPORT

**STANDING COMMITTEE ON FINANCE
(2015-2016)**

(SIXTEENTH LOK SABHA)

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

***[Action taken by the Government on the recommendations contained in Tenth Report of the
Standing Committee on Finance on Demands for Grants (2015-16)]***

Presented to Lok Sabha on 03 December, 2015

Laid in Rajya Sabha on 03 December, 2015



**LOK SABHA SECRETARIAT
NEW DELHI**

December, 2015 / Agrahayana, 1937 (Saka)

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* Not appended in the cyclostyled copy

COMPOSITION OF STANDING COMMITTEE ON FINANCE – 2015-16

Dr. M. Veerappa Moily - Chairperson

MEMBERS

LOK SABHA

2. Shri S.S. Ahluwalia
3. Shri Venkatesh Babu T.G.
4. Shri Sudip Bandyopadhyay
5. Shri Nishikant Dubey
6. Shri P.C. Gaddigoudar
7. Dr. Gopalakrishnan C.
8. Shri Shyama Charan Gupta
9. Shri Prataprao Jadhav
10. Shri Rattan Lal Kataria
11. Shri Bhartruhari Mahtab
12. Shri Prem Das Rai
13. Shri Rayapati Sambasiva Rao
14. Prof. Saugata Roy
15. Shri Jyotiraditya M. Scindia
16. Shri Gajendra Singh Sekhawat
17. Shri Gopal Shetty
18. Shri Anil Shirole
19. Shri Shivkumar Udasi
20. Dr. Kiritbhai Solanki
21. Dr. Kirit Somaiya

RAJYA SABHA

22. Shri Naresh Agrawal
23. Shri Naresh Gujral
24. Shri A. Navaneethakrishnan
25. Shri Satish Chandra Misra
26. Dr. Mahendra Prasad
27. Shri P. Rajeeve
28. Shri C.M. Ramesh
29. Shri Ajay Sancheti
30. Shri Digvijaya Singh
31. Dr. Manmohan Singh

SECRETARIAT

- | | | | |
|----|------------------------------|---|---------------------|
| 1. | Smt. Abha Singh Yaduvanshi | - | Joint Secretary |
| 2. | Shri P.C. Tripathy | - | Director |
| 3. | Shri Ramkumar Suryanarayanan | - | Additional Director |
| 4. | Shri Kh. Ginlal Chung | - | Executive Officer |

INTRODUCTION

I, the Chairperson of the Standing Committee on Finance, having been authorized by the Committee, present this Twenty-second Report on action taken by Government on the Observations / Recommendations contained in the Tenth Report of the Committee (Sixteenth Lok Sabha) on “Demands for Grants (2015-16)” of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services And Disinvestment).

2. The Tenth Report was presented to Lok Sabha / laid on the table of Rajya Sabha on 24 April, 2015. The Action Taken Notes on the Recommendations were received from the Government *vide* their communication dated 23 July, 2015.

3. The Committee considered and adopted this Report at their sitting held on 19 November, 2015.

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

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

NEW DELHI
01 December, 2015
10 Agrahayana, 1937 (Saka)

DR. M. VEERAPPA MOILY,
Chairperson,
Standing Committee on Finance.

REPORT

CHAPTER-I

This Report of the Standing Committee on Finance (Sixteenth Lok Sabha) deals with action taken by the Government on the recommendations/observations contained in their 10th Report on the Demands for Grants (2015-16) of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment) which was presented to Lok Sabha and laid in Rajya Sabha on 24 April, 2015.

2. Action taken notes have been received from the Government on 23 July, 2015 in respect of all the 14 recommendations/observations contained in the Report, most of which the Government have accepted in principle. These have been analyzed and categorized as follows:

- (i) Recommendations/Observations that have been accepted by the Government:
Recommendation Nos. 1,2,3,4,6,7,8,10,11,12,13,14,
(Total : 12) (Chapter- II)
- (ii) Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies:
Recommendation No. Nil (Total : Nil) (Chapter- III)
- (iii) Recommendations/Observations in respect of which replies of Government have not been accepted by the Committee:
Recommendation Nos. 5&9 (Total 2) (Chapter -IV)
- (iv) Recommendations/Observations in respect of which final replies by the Government are still awaited:
Recommendation No. NIL (Total - NIL) (Chapter- V)

3. The Committee desire that the replies to the recommendations / observations contained in the Chapter I of this Report may be furnished to them expeditiously, in any case not later than three months of the presentation of this Report.

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

Recommendation (Para/ Sl.no.5)

5. The Committee noted that the Ministry had clarified that the issue of fund allocation to Regional Council stipulated under the Sixth Schedule of the Constitution was distinct from the issue of development of Hill Areas and WESTERN Ghats, which had been discontinued or subsumed. The Committee desired that in view of the statutory requirements, the resources transfer envisaged in the tripartite agreements between the Centre, States and the Regional Development Council, Kalahandi-Bolangir-Koraput (KBK) region of Odisha, Bundelkhand packages for UP and MP etc. should be preserved and continued as a separate arrangement, which was not subsumed under Block Grants for eradication of extreme poverty in these neglected areas/regions. The Budget should accordingly reflect this position clearly. In this context, the Committee would thus emphasise that the specific mechanism of transfer of funds to States as Plan Grants development over time should be preserved and kept distinct and separate from devolutions under Finance Commission award, which by its very nature cannot address re-distributive aspects in funds allocations/resources transfer. In this regard the Committee desired that the recommendations of Raghuram Rajan's Report on backwardness of States (Committee for Evolving a Composite Development Index of States) may be considered and appropriately implemented.

6. The Ministry of Finance in their action taken reply have stated that the resources transfer envisaged in the tripartite agreements between the Centre, States and the Regional Development Councils such as Gorkhaland Territorial Administration (GTA), Bodoland Territorial Council etc. do not come under the purview of Demand No. 37. On the suggestion of the Committee to continue support as Block grants for the schemes dealing with intra-state inequality, including schemes for eradication of extreme poverty in certain areas like package for Bundelkhand and KBK districts of Odisha (supported earlier through BRGF-State component), it may be appropriate to refer to para 2.30 of

the Report of the Fourteenth Finance Commission (FFC) on the requests of the States of support backward area specific grants. Para 2.30 of its Report reads as below:

“Many States, in their submissions, suggested that intra-state inequality should be factored into the devolution formula or in determining grants, instead of only broad indicators such as per capita income being considered. In this context, some of these States also highlighted the areas within the States as identified in Article 371 of the Constitution. We are of the view that intra-state inequality is within the policy jurisdiction of the States and provisioning of adequate resources through tax devolution should enable them to address intra-state inequalities in an effective manner.”

7. With the sufficient flexibility to the States to conceive and implement schemes/programmes suited to the local needs and aspirations, including requirements to bridge the inter-state developmental deficit gap and eradication of poverty, no allocation to related schemes like, BRGF (State Component) in 2015-16(BE) has been made. However, “Special Assistance” a new budget line has been introduced in 2015-16 in “Demand No.37 – Transfer to State & Union Territory Governments” with an allocation of Rs.20000 crore, to meet the specific needs on the recommendations of NITI Aayog.

8. **The Committee note the reply of the Ministry of Finance which states that the resources transfer envisaged in the tripartite agreements between the Centre, States and the Regional Development Councils such as Gorkhaland Territorial Administration (GTA), Bodoland Territorial Council etc. do not come under the purview of Demand No. 37. In respect of Block grants for the schemes dealing with intra-state inequality, including schemes for eradication of extreme poverty in certain areas like package for Bundelkhand and KBK districts of Odisha (supported earlier through BRGF-State component), the Ministry of Finance have referred to para 2.30 of the Report of the Fourteenth Finance Commission (FFC) wherein it was *inter alia* states that "*intra-state inequality is within the policy jurisdiction of the States and provisioning of adequate resources through tax devolution should enable them to address intra-state inequalities in an effective manner*". It has thus been submitted that no allocation to related schemes like,**

BRGF (State Component) in 2015-16(BE) has accordingly been made. The Ministry have added that "Special Assistance" - a new budget line has, however, been introduced in 2015-16 in "Demand No.37 – Transfer to State & Union Territory Governments" with an allocation of Rs. 20000 crore, to meet the specific needs on the recommendations of NITI Aayog. The Committee are, however, not convinced by the reply furnished by the Ministry. The Committee are of the view that the Ministry of Finance cannot absolve itself of the responsibility of bridging development gaps both among States and Regions within individual States. They would, therefore, reiterate that the specific mechanism of transfer of funds to States as Plan Grants developed over time should be preserved and kept distinct and separate from devolutions under Finance Commission award, which by its very nature cannot address re-distributive and special developmental aspects in funds allocations/resources transfer, such as those relating to Regional Development Councils like Gorkhaland Territorial Administration, Bodoland Territorial Council etc. The Committee also reiterate that in this regard, the recommendations of Raghuram Rajan's Report on backwardness of States (Committee for Evolving a Composite Development Index of States) may be considered and appropriately implemented.

Recommendation (Para/ Sl.no.9)

9. The Committee highlighted the underlying problem of wholly inadequate crop insurance system available for the hapless farmers. The existing weather and yield-based systems had taken only the area and not the individual as a unit. This approach did not seem to represent and address the manner in which crop damage actually occurs. The committee felt that if crop insurance products were to be tailored to cover for a range of risks as well as reach out to the individual farmer, insurance premium would inevitably increase, would have to be duly factored in and subsidized, while making crop insurance a viable proposition. It was also felt necessary that large number of the country's small and marginal farmers, who were financially excluded, should be brought under the insurance ambit, which would no doubt reduce the costs for all concerned, such a wide insurance coverage should be linked to micro-finance and the

Self Help Groups (SHGs) network as well. In this regard the Committee recommended that a suitable fool-proof mechanism/scheme should be put in place to provide complete financial protection to farmers including social security.

10. The Ministry of Finance in their action taken reply have inter alia submitted that Insurance Regulatory and Development Authority of India (IRDAI) had initiated various measures as below for ensuring financial protection to farmers and economically weaker sections of the society.

IRDAI has formulated the micro insurance regulations which provide a platform to distribute insurance products, certain levels of cover, premium and benefit standards, which were affordable to the rural and urban poor. These regulations allowed Non-Government Organizations (NGOs), RBI regulated NBFCs, primary agriculture societies, urban cooperative banks, Self Help Groups (SHGs) etc. to act as agents to insurance companies in marketing the micro insurance products. These Micro Insurance agents could also work with the Agriculture Insurance Company of India for distributing micro crop insurance products. These new distribution channels would surely help in reaching out to the poor and the deprived section of the population especially those residing in rural areas.

The Insurance companies were also encouraged to devise products with smaller premiums and less coverage, which could help in catering to the insurance needs of the low-income population that could not afford or did not have access to traditional plans. Currently, as per our records, about 50 crop insurance products were being marketed by AICIL and other General Insurance Companies.

IRDAI had come out with a regulatory framework vide IRDAI (Obligations of Insurers to Rural or Social Sectors, 2002) so as to ensure a balanced and speedy penetration of insurance coverage in the country. Recently IRDAI has also formulated a draft regulation- IRDAI (Obligations of Insurers to Rural and Social Sectors) Regulations, 2015, in pursuance to the amendments brought about u/s 32 B of the Insurance Laws (Amendment) Act 2015. These regulations imposed obligations on insurers towards providing insurance cover to the rural and economically weaker section of the population. The regulation mandates that the insurers had to necessarily sell a specified percentage of policies and underwrite specified percentage of gross premium underwritten with respect to life and non-life insurance companies respectively. Stringent penalties were also prescribed under the Act for non-compliance of the above provision.

To ensure faster settlement of crop insurance claims the IRDAI was actively considering the use of satellite remote sensing technology as an efficient and reliable mapping tool for yield estimation for assessment of risk and settlement of crop insurance losses. IRDAI had had a series of discussions with various stakeholders in this regard. In this direction, various research studies and experiments were being undertaken by institutions associated with agriculture and rural development, throughout the country. Use of this technology would definitely ensure speedy assessment and settlement of crop losses.

One of the main reasons for low levels of insurance penetration in crop insurance was lack of awareness about the insurance products and the benefits of various insurance policies. IRDAI, as insurance sector regulator, had been playing pro-active role in promoting insurance education so as to improve financial literacy among the population.

Agriculture Insurance Company of India Ltd. (AICIL), at present, transacts only crop insurance business. Other policies covering various risks pertaining to farmers such as agriculture implements, personal accident, livestock, etc. are being provided by other general insurance companies.

The present crop insurance schemes formulated by the Government of India were 'area approach based schemes' covering crops of the farmers against non-preventable risks which were subsidized by the governments.

The operation of crop insurance Scheme with farmer's holding as unit or the tailor made products made to suit each individual farmer's choice of risk may not be feasible due to following reasons:

- i. Large number of small sized farm holdings vis-à-vis small ticket insurance to service large number of such holdings which was administratively challenging task.
- ii. Non availability of past record of farm level yield data.
- iii. Location of fields in remote and inaccessible areas.
- iv. Requirement of huge investment in terms of creation of infrastructure and manpower for assessing the yield/ loss.
- v. Assessment of losses on large number of fields simultaneously affected by wide spread calamities i.e. Flood, hail storm etc. is difficult.
- vi. High costs of operation will push up premium rates which if not subsidized, may be unaffordable to the farmers.

Small and Marginal farmers covered under NAIS, MNAIS and WBCIS are 63% of total insured farmers. These schemes were compulsory for loanee farmers and optional for non-loanee farmers. Thus small & marginal farmers availing short term agricultural loans for growing notified crops can be covered through banking network. Those not availing crop loans had option to participate in crop insurance schemes as non-loanee farmers.

As per schemes provisions, the farmers who availed the Seasonal Agricultural Operation loans (SAO) for growing notified crops were covered as loanee farmers. Micro-finance, if availed for notified crops was covered under crop insurance schemes. Self Help Groups (SHGs) also participated under these schemes.

11. The Committee note that efforts have been made by the Government to provide insurance cover to the farmers in the country, such as *allowing Non-Government Organizations (NGOs), RBI regulated NBFCs, primary agriculture societies, urban cooperative banks, Self Help Groups (SHGs) etc. to act as agents to insurance companies in marketing the micro insurance products, while using satellite remote sensing technology as an efficient and reliable mapping tool for yield estimation for assessment of risk and settlement of crop insurance losses.* However, in view of the gravity and enormity of the problems confronting the farm sector and particularly considering the vagaries affecting agriculture, the Committee strongly believe that the coverage of crop insurance for the relief of the farmers needs to be extensively scaled up and made universal. In this regard, the Committee would urge the Government to rise to the emerging challenges and work out viable crop insurance schemes, customised for each segment of farmers and their crops and ensure financial protection to the farmers including social security.

**NEW DELHI
01 December, 2015
10 Agrahayana, 1937 (Saka)**

**DR. M. VEERAPPA MOILY,
Chairperson,
Standing Committee on Finance.**

Minutes of the Fifth sitting of the Committee on Finance

The Committee sat on Thursday, the 19 November, 2015 from 1100 hrs. to 1300 hrs. in Committee Room 'D', Ground Floor, Parliament House Annexe, New Delhi.

PRESENT

Dr. M. Veerappa Moily - Chairperson

LOK SABHA

2. Shri S.S. Ahluwalia
3. Shri Venkatesh Babu T.G.
4. Shri Nishikant Dubey
5. Shri P.C. Gaddigoudar
6. Shri Chandrakant B. Khaire
7. Shri Rattan Lal Kataria
8. Shri Prem Das Rai
9. Shri Rayapati Sambasiva Rao
10. Shri Gopal Shetty
11. Dr. Kirit Somaiya

RAJYA SABHA

12. Shri Naresh Agrawal
13. Shri Naresh Gujral
14. Shri Digvijay Singh
15. Dr. Manmohan Singh

SECRETARIAT

- | | | |
|---------------------------------|---|---------------------|
| 1. Smt. Abha Singh | - | Joint Secretary |
| 2. Shri P.C. Tripathy | - | Director |
| 3. Shri Ramkumar Suryanarayanan | - | Additional Director |
| 4. Shri Kulmohan Singh Arora | - | Deputy Secretary |

2. The Committee then took up the following draft Reports for consideration and adoption.

- I. Draft Report on Action taken by the Government on the recommendations contained in the 10th report on Demands for Grants (2015-16) of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services, Disinvestment).

II. Draft Report on Action taken by the Government on the recommendations contained in the 11th report on Demands for Grants (2015-16) of Ministry of Finance (Department of Revenue).

III. Draft Report on Action taken by the Government on the recommendations contained in the 12th report on Demands for Grants (2015-16) of Ministry of Planning.

3. After some deliberations, the Committee adopted the above draft Reports with minor modification and authorised the Chairperson to finalize them and present these Reports to Parliament.

4. XX XX XX XX XX

The Committee then adjourned.

APPENDIX

(Vide Para 4 of the Introduction)

ANALYSIS OF THE ACTION TAKEN BY THE GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE TENTH REPORT OF THE STANDING COMMITTEE ON FINANCE (SIXTEENTH LOK SABHA) ON DEMANDS FOR GRANTS (2015-16) OF THE MINISTRY OF FINANCE (DEPARTMENTS OF ECONOMIC AFFAIRS, EXPENDITURE, FINANCIAL SERVICES AND DISINVESTMENT)

	Total	% of total
(i) Total number of Recommendations	14	
(ii) Recommendations/Observations which have been accepted by the Government (vide Recommendations at Sl. Nos. 1,2,3,4,6,7,8,10,11,12,13&14)	12	85.70%
(iii) Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies	Nil	-
(iv) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee (vide Recommendations at Sl. Nos. 5 & 9)	02	14.30%
(v) Recommendations/Observations in respect of which final reply of the Government are still awaited	Nil	-