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STANDING COMMITTEE ON FINANCE (2006-07)

FOURTEENTH LOK SABHA

MINISTRY OF FINANCE

(DEPARTMENTS OF ECONOMIC AFFAIRS, EXPENDITURE AND DISINVESTMENT)

DEMANDS FOR GRANTS (2006-2007)

[Action Taken by the Government on the recommendations contained in the Thirty-Sixth Report of the Standing Committee on Finance on Demands for Grants (2006-2007) of the Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment)]

FORTY-FIFTH REPORT

LOK SABHA SECRETARIAT
NEW DELHI

December, 2006/Agrahayana, 1928 (Saka)

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Presented to Lok Sabha on 14 December, 2006
Laid in Rajya Sabha on 14 December, 2006

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(2006-2007)

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*Nominated to this Committee *w.e.f.* 31.8.2006 *vice* Shri Raosaheb Danve Patil.

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2. Shri A. Mukhopadhyay — *Joint Secretary*
3. Shri S.B. Arora — *Deputy Secretary*
4. Shri T.G. Chandrasekhar — *Under Secretary*

INTRODUCTION

I, the Chairman of the Standing Committee on Finance having been authorized by the Committee to submit the Report on their behalf present this Forty-fifth Report on action taken by Government on the recommendations contained in the Thirty-sixth Report of the Committee (Fourteenth Lok Sabha) on Demands for Grants (2006-2007) of the Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment).

2. The Thirty-sixth Report was presented to Lok Sabha/laid in Rajya Sabha on 22 May, 2006. The Government furnished the written replies indicating action taken on all the recommendations on 17 November, 2006. The Draft Action Taken Report was considered and adopted by the Committee at their sitting held on 7 December, 2006.

3. An analysis of action taken by Government on the recommendations contained in the Thirty-sixth Report (Fourteenth Lok Sabha) of the Committee is given in the Appendix.

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

NEW DELHI;
11 *December*, 2006
20 *Agrahayana*, 1928 *(Saka)*

MAJ. GEN. (RETD.) B.C. KHANDURI,
Chairman,
Standing Committee on Finance.

CHAPTER I

REPORT

This Report of the Standing Committee of Finance deals with action taken by Government on the recommendations/observations contained in their Thirty-Sixth Report (Fourteenth Lok Sabha) on Demands for Grants (2006-07) of Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment) which was presented to Lok Sabha/Laid in Rajya Sabha on 22 May, 2006.

2. The Report contained 8 recommendations. Action taken notes have been received from the Government in respect of all recommendations contained in the Report. These have been categorized as follows:

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

Recommendation Nos. 2. (Para Nos. 34, 35 & 36), 3 (Para Nos. 49, 50, 51 & 52), 5 (Para Nos. 69 & 70), and 6 (Para Nos. 80 & 81)

(Total 4) (Chapter-II)

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

(Nil)

(Chapter-III)

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

Recommendation Nos. 1 (Para Nos. 25, 26 & 27), 4 (61, 62 & 63), 7 (Para Nos. 93) and 8 (Para Nos. 103 & 104)

(Chapter IV)

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

(Total Nil)

(Chapter V)

3. The Committee desire that the replies to the recommendations in Chapter-I may be furnished to them expeditiously.

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

Priority Sector Lending – Lending to Agriculture Sector

(Recommendation No. 1, Para No. 25, 26 & 27)

5. Though scheduled commercial banks were required to extend a minimum of 18 percent of their net banking credit to the agricultural sector, the actual quantum of such lending has been to the extent of 15.7 per cent and 12.1 per cent in the case of public and private sector banks respectively during 2004-05. With specific reference to the agricultural credit extended by Private Sector Banks, the Committee noted that the quantum of such credit extended by the banks had declined from 14.2 per cent in 2003-04 to 12.1 per cent in 2004-05.

6. An issue of concern noticed by the Committee was the fact that the net accruals to the Rural Infrastructure Development Fund (RIDF) on account of the deposits made by scheduled commercial banks to compensate the shortfalls in meeting the agricultural lending targets had been witnessing a steady increase *viz.*, from Rs. 3874.09 crore (RIDF-IX) to Rs. 5836.25 crore (RIDF-X) and Rs. 6174 crore (RIDF-XI). What the Committee felt to be worrisome in that regard was the fact that a number of public sector banks too which include, the Bank of Baroda, Canara Bank and Corporation Bank had been making deposits amounting to hundreds of crores of rupees to the RIDF on a continued basis owing to the inability in meeting the agricultural lending targets. As admitted by the representatives of the Ministry of Finance, the RIDF deposits and accruals, which were intended to create tangible assets in the rural sector,

could not be perceived to be a viable alternative to the extension of credit facilities to the farming community. The Committee, therefore, emphasised on the need for evolving an effective means for ensuring that the Banks did not deviate from the mandated level of disbursement of credit to the agriculture sector and the weaker sections. In the opinion of the Committee, the need to ensure that Banks abide by the mandated level of extending agricultural credit acquired added importance in view of meeting the envisaged target of doubling the flow of credit to agriculture sector by 2006-07.

7. With specific reference to the Budget announcement of extending agriculture credit at 7 per cent rate of interest, the Committee noted from the information furnished that the modalities relating thereto were being worked out in consultation with the Bankers and NABARD. The Committee wished to be apprised of the policy measures finalised for giving effect to the proposal for enabling flow of agricultural credit at the interest rate of 7 per cent.

8. In their Action Taken note, the Ministry of Finance, Department of Economic Affairs replied as under:

> "The Committee's observation that the decline in the share of credit to agriculture by private sector banks from 14.2% in 2003-04 to 12.1% in 2004-05 is based on the Net Bank Credit (NBC) of the private sector banks *i.e.* outstanding credit as on 31.03.2004 and 2005 respectively. However, the credit flow in absolute terms to agriculture by the private sector banks have registered an increase from Rs.17651.77 crore in 2003-04 to Rs.21472.63 crore in 2004-05 showing an increase of 21.64%. It would also be pertinent to mention here that the indirect agricultural advances (outstanding) by the private sector banks as at end of March, 2005 was 5.82% of Net Bank Credit. However, while calculating the percentage of total lending to the agriculture sector, this figure has been taken at 4.5%. Similarly, the share of these banks to the total agricultural credit by all agencies has also improved from 11.76% in 2003-04 to 12.98% in 2004-05."

9. On the issue of ensuring flow of 18% of the net credit of scheduled commercial bank to the agricultural sector, the action taken reply reads as follows:

> "In June, 2004, the Government had announced its intention to double the flow of credit to agriculture sector in 3 years. The flow of credit by various agencies is being monitored on a continuous basis and it has grown by 33% in 2004-05 and 33.89% in 2005-06. The quantum of credit flow to agriculture and allied activities has grown from Rs.86,981 crores in 2003-04 to Rs.167,775 crores (provisional) in 2005-06 thus, showing a growth of 93%. The target of doubling the agriculture credit flow has almost been achieved in 2 years. During this period the flow of agricultural credit from commercial banks (both public and private sector) has grown from Rs.52,441 crores to Rs.1,16,447 crores (provisional) showing an increase of 122%.
>
> The target for the year 2006-07 has been fixed at Rs.175,000 crores and in all likelihood would surpass this figure.
>
> The number of public sector banks achieving the targets of 18% credit to agriculture as a percentage of net bank credit has grown from 4 in March, 2003 to 12 in March, 2005. This reflects the importance being given by these banks to agricultural lending."

10. With regard to the policy measures for enabling agricultural credit at 7% rate of interest, the reply states as follows:

> "Pursuant to the announcement of the Finance Minister in the Budget Speech for the year 2006-07 that Govt. will provide short term agricultural loans to farmers at 7% with an upper limit of Rs.3,00,000 on the principal amount, the following scheme of subvention has been implemented.
>
> (a) Subvention of 2% p.a. to Public Sector Banks and RRBs on their own funds used for short term credit. These banks are under the administrative control of the Govt. of India and the Govt. is the majority shareholder.

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

(c) NABARD will provide refinance to cooperative banks at 2.5% in 2006-07. This will be increased annually by 50 basis points to a level of 4% p.a. by 2009-10. Consequently, the rate of interest on refinance will be as follows:

2006-07	—	2.5% p.a.
2007-08	—	3.0% p.a.
2008-09	—	3.5% p.a.
2009-10	—	4.0% p.a.

The quantum of refinance assistance to cooperatives by NABARD will be enhanced from Rs. 8,000 crore last year to Rs. 14,000 crore in 2006-07.

Taking a cue from the subvention provided by Govt. of India to the Public Sector Banks and RRBs and by a few States to the Cooperative Banks, other State Govts. also need to seriously consider providing interest subsidy to Cooperative Banks on the amount of their own involvement to ensure that they can disburse ground level credit at the maximum of 7%. This will go a long way in mitigating the problems of farmers. States have been asked to consider this favorably and expeditiously in view of the fact that lending to farmers has started for the Kharif crop. Finance Minister has addressed a letter to the Chief Ministers urging them to take necessary steps in this behalf."

11. The main concerns expressed by the Committee in their report on the Demands for Grants (2006-07) of the Ministry on aspects relating to flow of credit to the agricultural sector centered on the inability of the scheduled commercial banks, particularly the private sector banks in abiding by the mandated target of ensuring 18% of the net credit extended to the agricultural sector; the significant rise in accruals to the Rural infrastructure Development

Fund (RIDF) on account of the deposits made by the public sector banks to compensate the shortfalls in meeting the agricultural lending targets; and subvention related measures for enabling credit to farmers at the interest rate of 7%.

12. Instead of accounting for the failure on part of the private sector banks in particular in adhering to the target of ensuring 18% of the net credit flow to the agricultural sector, the reply of the Government merely recounts the increase registered in absolute terms in the agricultural credit extended by the private sector banks from Rs.17651.77 crore in 2003-04 to Rs.21472.63 crore in 2004-05. While the stipulations provide for ensuring 18% of the net credit extended by the Banks to the agricultural sector, the quantum of credit extended by private sector banks stood at 14.2% in 2003-04 and 12.1% in 2004-05. The Committee, therefore, emphasise on the need for initiation of appropriate remedial measures for ensuring that the lending targets to the priority sector, with the agriculture sector in particular, are strictly adhered to by the banks.

13. In a similar vein, the Committee feel constrained to note that the reply of the Government does not address the concern expressed by them on the apparent tendency of the banks to make deposits to the Rural Infrastructure Development Fund (RIDF) to compensate the shortfalls in meeting the agriculture lending targets. As per the Governments own admission, the RIDF deposits and accruals can not, in any way, be perceived to be a viable alternative to the extension of credit facilities to the farming community. The Committee, therefore, expect the Government to carry out a detailed analysis of the visible tendency on the part of banks to make deposits to the RIDF as an alternative to meeting the agricultural lending targets.

14. The Committee also note from the reply that a scheme of subvention to the extent of 2% is being provided to the public sector banks and RRBs for extending short term credit to farmers at 7% interest rate, and the matter of providing a similar interest subsidy to co-operative banks is being pursued with the State

Governments. The Committee would like to be apprised of the outcome of the efforts to provide interest subsidy to co-operative banks for extending short-term credit to farmers at 7% interest rate.

Micro Finance – SHGs

Recommendation No. 3 (Sl.Nos. 49, 50, 51 and 52)

15. The Committee noted that the SHG — Bank linkage programme has, particularly in the recent years, emerged as a major and effective means of 'financial inclusion' by making credit facilities available to the poor in the rural areas. While the active participation of Banks, which include commercial banks, RRBs and Cooperative banks in the operation of the programme had resulted in an increase in the cumulative disbursement of credit facilities to the needy sections from about 57.00 crore in 1992-93 to 8319.00 crore in 2005-06, which was noteworthy, the Committee felt the need to emphasise on addressing some specific issues pertaining to the 'micro finance sector'. These included, *inter alia*, the regional imbalances, particularly between the north and the south in the growth and spread of SHG — Bank linkage programme; the reasonability of interest charged on 'micro credit'; and regulation of micro finance institutions.

16. As evidenced from the written notes furnished by the Ministry and the oral submissions made by the representatives of the Ministry of Finance, focussed attention was being given or was proposed for ensuring regional balance in the growth of 'SHG- Bank linkage programme'. The Committee felt the need to emphasise on ensuring that NABARD plays a pro-active role in promoting the formation of SHGs, and activising NGOs to participate in the SHG-bank linkage programme in the States where it had not gained ground.

17. The interest rate chargeable on 'micro-credit' ranges from 8 to 12 percent, which in the opinion of the Committee, was not in consonance with avowed objective of the SHG-Bank linkage programme, which was aimed at benefiting the needy and poor sections of the society. While the RRBs and Cooperative Banks exercised freedom in fixing the lending rates, the 'Scheduled Banks' are to abide by the 'Bench mark rates' fixed

by RBI in deciding on the lending rates. From the information furnished, the Committee noted that efforts were underway to bring down the interest chargeable on 'micro-credit' to a range of 6-8%. The Committee expected that effective policy measures were evolved for ensuring that the interest chargeable on micro credit was affordable and reasonable for the needy sections.

18. The Committee further noted that micro-finance institutions could be registered in the form of societies, trusts, companies or cooperatives. Regulation of these institutions being an imminent necessity, the Committee expected the proposed legislation on 'micro finance institutions' to be brought in at the earliest.

19. While furnishing the Action Taken reply, the Ministry of Finance (Department of Economic Affairs and Expenditure) *inter-alia* replied as under:—

"Due to a variety of reasons like presence of social capital by way of good NGOs, proactive role by the State Governments, better performance of SHGs etc., the SHG Bank Linkage Programme had a head start in the southern States in the year 2000-01, the share of the Southern Region was 71%. The southern region currently constitutes about 54% (March 2006) of the credit linked SHGs in the country. The region-wise distribution of number of SHGs - credit linked to banks for the year 2000-01 and 2005-06 is given below:

Region	2000-01		2005-06	
	SHGs Credit linked to banks	Percent to Total	SHGs Credit linked to banks	Percent to Total
1	2	3	4	5
Northern	9012	3.4	133057	5.9
North Eastern	477	0.2	62517	2.8

1	2	3	4	5
Eastern	22252	8.4	394351	17.6
Central	28851	10.9	267915	12.0
Western	15543	5.9	166254	7.4
Southern	187690	71.2	1214431	54.3
Total	2,63,825	100	22,38,525	100

There is an effort to increase the spread of the programme in the regions other than the south as can be seen from the table above. To further reduce this gap, 13 States have been identified as priority States for this programme. They are Assam, Bihar, Jharkhand, Gujarat, Himachal Pradesh, Maharashtra, Madhya Pradesh, Chhattisgarh, Orissa, Rajasthan, Uttar Pradesh, Uttaranchal and West Bengal. Special focus on SHG Bank Linkage in these States is underway.

Reasonability of interest rates : The rates of interest charged on loans to SHGs by banks are governed by RBI guidelines. The commercial banks cannot charge more than the PLR on all loans upto Rs. 2,00,000/- as per existing RBI guidelines. Presently, banks charge interest rates in the range of 8.5% to 11.5% p.a. on loans to SHGs.

Regulation of micro finance institutions : The Finance Minister, in his budget speech for 2005-06, had announced that a Bill to provide a formal statutory framework for the promotion, development and regulation of the micro finance sector will be introduced. The said Bill is likely to be introduced soon."

20. On the pro-active role that the Committee expected of NABARD in giving an impetus to the SHG Bank linkage programme, the action taken reply states as under:—

"In order to reduce the regional imbalance in the spread of the SHG — Bank Linkage Programme, NABARD has identified

13 priority States, which have a large population of the poor for focused attention. During the year 2005-06, significant increase was observed in the number of SHGs credit linked in priority States of Maharashtra (60,324), Orissa (57,640), West Bengal (42,533), Uttar Pradesh (42,263), Rajasthan (38,165), Assam (25,215), and Chhattisgarh (12,722). Proactive measures such as emphasis on priority States, enlisting partnerships and capacity building of partner agencies have served to expand the programme in non-southern States. The growth in SHG Bank Linkage Programme in the 13 priority States during the last 5 years is given below:—

Cumulative Growth in SHG Bank Linkage

Priority State	2002	2003	2004	2005	2006
1	2	3	4	5	6
Assam	1024	3477	10706	31234	56449
Bihar	3957	8161	16246	28015	46221
Chhattisgarh	3763	6763	9796	18569	31291
Gujarat	9496	13875	15974	24712	34160
Himachal Pradesh	5069	8875	13228	17798	22920
Jharkhand	4198	7765	12647	21531	30819
Maharashtra	19619	28065	38535	71146	131470
Madhya Pradesh	7981	15271	27095	45105	57125
Orissa	20553	42272	77588	123256	180896
Rajasthan	12564	22742	33846	60006	98171
Uttar Pradesh	33114	53696	79210	119648	161911

1	2	3	4	5	6
Uttaranchal	3323	5853	10908	14043	17588
West Bengal	17143	32647	51685	92698	136251
Total	141804 (31%)	249462 (35%)	397465 (37%)	667761 (41%)	1005272 (45%)

Overall too, SHG Bank Linkage Programme has shown good progress. The Physical and Financial progress under the programme during 2005-06 is as under:

Year	Repeat loans to existing SHGs during the year	Fresh loans to new SHGs during the year	Cumulative no. of Credit linked SHGs at the end of the year	Bank loan during the year	Cumulative bank loan at the end of the year
2003-04	1,71,669	3,61,731	10,79,091	1855.53	3904.20
2004-05	2,58,092 (50%)	5,39,365 (49%)	16,18,456 (50%)	2994.25 (61%)	6898.45 (77%)
2005-06	3,44,502 (34%)	6,20,109 (15%)	22,38,565 (38%)	4499.09 (50%)	11397.55 (65%)

(Figures in brackets indicate percentage increase over the previous year)

21. On the interest rate chargeable on 'micro-credit', the action taken note reads as under:—

"In order to enhance transparency in pricing of loan products of the banks, the Reserve Bank of India (RBI) has advised all the banks to announce a Benchmark Prime Lending Rate (BPLR) with the approval of their Board of Directors, taking into account the actual cost of funds, operating expenses, a minimum margin and to cover regulatory requirements of provisioning/capital charge and profit margin, to ensure that the BPLR truly reflects the actual cost. The banks determine the interest rates on loans above Rs. 2 lakhs to be charged to a particular borrower keeping in view their BPLR and, spread guidelines. Loans upto Rs. 2 lakhs carry the prescription of not exceeding the BPLR.

The interest rate applicable to loans given by banks to micro credit organizations or by the micro credit organizations to SHGs/member beneficiaries have been left to their discretion. Banks have also been permitted to prescribe their own lending norms so as to provide maximum flexibility about micro lending. NABARD provides refinance to banks against their loans to Self Help Groups (SHGs). As SHG-Bank Linkage Programme aims at benefiting the poor sections of the society, the rate of interest on refinance is kept at the lowest slab. The prevailing interest rate on refinance to banks for their loans to SHGs is 6.5% p.a. per capita loan size upto Rs. 50,000/- and 7% p.a. above Rs. 50,000/-."

22. The Committee note from the reply of the Government that NABARD has prioritized 13 States with a large population of the poor for focused attention with a view to reduce the regional imbalance in the spread and out-reach of the SHG — Bank Linkage Programme. Largely as a consequence of the measures being undertaken, the number of credit linked SHGs has registered a significant increase in the regions other than the South, which has traditionally had the highest percentage of credit linked SHGs. The Committee express the need for giving an added impetus to the policy measures for enabling an even spread and out-reach of the SHG — Bank Linkage Programme so as to cover the needy sections of all regions of the country.

23. With regard to the interest chargeable on micro-credit, however, though the Committee were informed that efforts were

under way for ensuring that the interest chargeable was reasonable and affordable, details of the measures initiated or proposed in this direction have not been furnished in the reply. As the prevailing guidelines provide a substantial amount of freedom to banks and micro-credit organizations to determine the lending rates, the interest chargeable on micro-credit ranges from 8.5% to 11.5% which, as pointed out by the Committee in their earlier report, can prove to be a costly proposition to the beneficiaries. The thrust of the SHG — Bank Linkage Programme being aimed at benefiting the poor and needy sections of the society, the Committee reiterate the need for formulating and implementing suitable policy measures by way of providing easy re-finance to banks and fixing upper limits on the interest chargeable so that availing micro-credit advances is made reasonable and affordable to the deprived sections. The Committee also feel the need to impress upon the Government to urgently bring before Parliament the Bill proposed in the Budget Speech, 2006-07 for enabling regulation and development of the micro-finance sector.

Insurance Sector — Performance of Public Sector Insurance Companies

Recommendation (Sl.No. 4 Para No. 61, 62 & 63)

24. The Committee were concerned to note that the post tax profit of the four public sector general insurance companies declined from Rs.1364 crores in 2003-04 to Rs.1172 crores in 2004-05. The market share of the companies too came down from 85.52% in 2003-04 to 79.93% in 2004-05 which amounted to a fall of 5.59% as compared to the previous year. The Committee had, while examining the Demands for Grants of the Ministry of Finance for the year, 2004-05 laid stress on the need for upgrading the operations and quality of services of the non-life public sector insurance companies in view of the slipping market share of the companies, which was to the extent of 4.5% in the year (2004-05). What the Committee found to be particularly disturbing to note was also the fact that unlike the case of non-life private sector insurers, who had, more

or less, met the limits of allowable management expenditure, the management expenses incurred by the four public sector general insurance companies was well above the permissible limits in 2003-04 and 2004-05.

25. The declining profits, market share and excessive management expenditure of the public general insurance companies being a matter of serious concern, the Committee noted that the Government proposed to address issues ailing these companies by devising an 'MoU' to be entered into with the managements of the companies. The parameters of the proposed MoUs, as informed to the Committee, was to include, *inter alia*, business growth targets, prudent underwriting of business, yields on investment and management expenses. The Committee wished to be apprised of the progress on the policy measures contemplated for reversing the declining profit trend and market share of the public sector general insurance companies.

26. The Committee felt dismayed to note the facts and figures pertaining to the implementation of the Universal Health Insurance Scheme (UHIS), which as announced in the Budget, 2004-05, was intended to aid the BPL households by providing the beneficiaries a personal accident cover and reimbursement of hospitalisation charges. The fact that the targeted number of 10 lakh beneficiaries under the scheme for the year 2004-05 could not be achieved even after shifting it over to the subsequent year, 2005-06, and as many as 3197 of the total of 6288 claims were reportedly pending settlement was, in the opinion of the Committee indicative of serious flaws in operationalising the scheme. Moreover, figures showed that the public sector insurance companies received premium payments under UHIS (borne by Government) over last three years amounting to Rs. 24.42 crores while claims paid were only of the order of Rs. 1.59 crores. The Committee, therefore, desired that the various aspects of the Universal Health Insurance Scheme be assessed in detail and remedial measures taken by redesigning and reformulating the scheme so that the needy sections were actually benefited from the scheme.

27. In their action taken note the Ministry of Finance, *inter alia* informed as follows:—

> "With the entry of 8 private insurance companies in general insurance business, there has been decline in the market share of the public sector non-life insurance companies. The fall in the post-tax profits of the public sector general insurance companies is partly due to the increase in expenses due to implementation of Special Voluntary Retirement Scheme (SVRS) in 2003-04, provisions made in 2004-05 for impending wage revision and also because of increase losses in motor third party and mediclaim portfolios
>
> The companies have initiated steps for increasing the portfolio under corporate tie ups and opening of extension counters in rural areas for tapping the untapped business which will lead to retention of the market share in the long run. The implementation of SVRS and higher growth in business are expected to bring down the management expenses to the permissible limits.
>
> After detailed discussions with the CMDs on various issues such as declining profit, reducing share in business and excessive management expenses etc., the Government has finalized a set of efficiency parameters for monitoring the performance of 4 public sector general insurance companies. A Statement of Intent of Annual Goals for 2006-07 has already been signed with National Insurance Company, Oriental Insurance Company and United India Insurance Company. Based on the commitments made by the companies their performance would by evaluated on quarterly basis and in case of any deviations from the targets the necessary corrective action would be taken by the management.
>
> The companies have upgraded the hardware and software components of their Information Technology Infrastructure leading to improvement in internal capabilities, procedures and controls related to underwriting, rating support, policy terms & conditions and corporate governance. Networking of offices, which is being carried out, will further improve the quality of services by

facilitating online issue of policies, quicker settlement of claims resulting in better customer satisfaction so as to effectively face the competition from private players."

28. On issues related to the Universal Health Insurance Scheme (USIH), the action taken note states as follows:—

"A meeting was organized with the public as well as private insurance companies on 14.6.2006 with a view to seek inputs from them for considering revision of the UHIS. Suggestions so received are being examined in order to make the UHIS an effective scheme."

29. The Committee note that the reply of the Government mainly attributes the declining profits, market share and excessive management expenditure of the public sector general insurance companies to the entry of private companies; implementation of the Special Voluntary Retirement Scheme (SVRS) in 2003-04; and the provisioning made for the impending wage revision in 2004-05, which does not appear to be convincing or tenable. Mainly by taking note of the declining market share and excessive management expenses of public sector general insurance companies *vis-a-vis* the IRDA stipulations, the Committee had, in their report on the Demands for Grants (2004-05) of the Ministry of Finance, emphasized on ensuring that the companies upgrade the quality of services and pursue a time bound programme for modernizing/ computerizing the business operations. The fall in the market share of the public sector general insurance companies was to the extent of 4.5% and 5.59% respectively in the preceding two years, which is a matter of serious concern. The Committee, therefore, reiterate the need for formulating and pursuing a time bound programme for upgrading and modernizing the operations of the public sector general insurance companies, which would have the positive effect of cutting down the management expenses and enabling the companies to recapture the lost market share. The Committee would also like to be apprised of the details of the parameters laid down

and followed by the public and private sector general insurance companies for calculating the management expenses as well as the profit and loss accounts of the companies for the preceding five financial years.

30. The Committee also take note of the submission made in the reply that a set of efficiency parameters have been finalized for monitoring the performance of the public sector general insurance companies and a 'statement of intent of annual goals' signed by the companies. The Committee would like to be kept apprised of the performance of the companies *vis-a-vis* the efficiency parameters laid down and adhering to the stipulation listed under the 'statement of intent of annual goals' singed by the companies.

Policy of Disinvestment

Recommendation (S.No. 7, Para No. 93)

31. The Committee regretted to note that inspite of their repeated recommendations, the Government had not placed the much awaited policy document on Disinvestment in Parliament. In this connection, the Committee recalled their earlier recommendations in their Reports on Demands for Grants, 2004-05 as well as 2005-06 and subsequent Action Taken Reports thereon urging the Government to bring out a Comprehensive Policy document addressing aspects *e.g.* valuation, employee welfare etc. because in the absence of a clear cut policy, the Government was forced to evolve a new methodology every time to deal with a particular situation. The Committee also recalled the Government's categoric response to their earlier recommendations wherein the Government had stated that the White Paper on Disinvestment was under preparation and was expected to be tabled during the Monsoon Session of Parliament 2005. However, as the Committee noted that the proposed White Paper was stated to be still under consideration of the Government, they were inclined to conclude that the Government was perhaps, not keen to come out with their policy document on disinvestment in the public domain. Therefore, the Committee emphatically reiterated their oft-repeated recommendation that the Government must expedite the

consideration of White Paper and come out with this policy document, without any further delay. The Committee also noted that the Government's emphasis was to list, large, profitable CPSEs on domestic Stock Exchanges and to selectively sell small portions of equity in listed, profitable CPSEs (other than the navratnas). They were of the opinion that it was essential that the policy of the Government on this matter was discussed in the Parliament. The White Paper, the Committee felt, should be a comprehensive document covering all aspects of disinvestment policy especially issues related to disinvestment of companies like rationale of disinvesting a company, benefits available to the retrenched employees, their other interests, possible rehabilitation.

32. The Ministry, in their action taken reply stated as under:—

"On 6th July, 2006, the Government decided to keep all disinvestment decisions and proposals on hold, pending further review. The White Paper on Disinvestment in CPSEs will be placed for information of Parliament after the review by Government is completed."

33. The Committee note with dismay that instead of giving a credible and convincing reasoning for keeping on hold the proposal made for placing a 'White Paper on disinvestment of CPSEs' before Parliament, which was identified as one of the thrust areas for implementation, the reply merely states that the proposed 'White Paper' would be placed in the public domain after the review process of all disinvestment decisions and proposals is completed. It was mainly on the basis of assurance made for coming out with the 'White Paper on Disinvestment' that the Committee had, in their earlier reports on the Demands for Grants of the Ministry of Finance chosen to draw the attention of the Government to pursue the proposal by presenting the same to Parliament. From the response of the Government to this matter of crucial importance to the economy at large, the Committee can not help inferring that the disinvestment policy approach of the Government is marred with adhocism and lack of clarity. As informed to the Committee earlier, the White Paper

on disinvestment was to be tabled in the Monsoon Session of Parliament of the previous year, 2005-06. Though more than a year has passed since then, the policy document is yet to be prepared and placed in the public domain. The Committee once again emphasise on the need on the part of the Government to abide by the announcement made by tabling the White Paper, which may clearly spell out the disinvestment policy approach, goals and objectives.

National Investment Fund

Recommendation (S.No. 8, Para No. 104)

34. In so far as managing the NIF was concerned, the Committee noted the Government's decision that the post of CEO, NIF would be filled through Central Staffing Scheme. They, however, felt that as this post needed experts who were equipped to deal with technical and complex economic issues, the Government should not limit their options for appointment of CEO, NIF only to bureaucrats and consider professionals/experts from the field also for the said post. The Committee felt that, this way the fund would have better chances of being professionally managed and effectively utilized. In line with their earlier recommendation made during examination of Demands for Grants (2005-06), wherein they had stated that several important issues relating to the management of funds and utilization of the proceeds of income from the fund needed to be addressed in detail, the Committee further recommended that utmost care should be taken to select competent auditors/auditing firms with proven track record for this job, and their independence must be ensured.

35. In their action taken reply, the Ministry stated as under:

"The rationale for filling the post of CEO, NIF through the Central Staffing Scheme is that he will mainly have a supervisory and administrative role and take decisions on the basis of the advice of the Advisory Board. While selecting an officer for this post, his qualifications and experience would be kept in view. The part-time

Advisory Board consisting of 3 eminent persons with requisite experience for advising CEO, NIF on various aspects of functioning of NIF, has been constituted.

The books of account will be audited yearly by a Chartered Accountant to ensure that the Fund Manger has followed proper accounting methods and procedures and that the Fund Manager has performed his duties in accordance with law. Similarly, the portfolio accounts of the Fund Managers shall be audited annually by a Chartered Accountant and a copy of the certificate issued by the Chartered Accountant shall be given to CEO, NIF. The Chartered Accountants so appointed, must be on the approved list of Comptroller and Auditor General and have experience of Treasury/ Mutual Fund audit operations."

36. The Committee are not convinced of the reasoning extended by the Government for filling up of the post of CEO of National Investment Fund (NIF) through the Central Staffing Schemes as the duties and responsibilities attached to the post were essentially of administrative and supervisory nature. Mainly by taking note of the fact that three large mutual funds, namely, UTI Mutual Fund, SBI Mutual Fund and LIC Mutual Fund were selected as fund managers to the National Investment Fund and a part time advisory body of professionals was constituted, the Committee had recommended that the option of appointment of CEO, NIF should not be confined to bureaucrats, and instead professionals in the financial sector too should be considered for the job. The Committee, therefore, reiterate their recommendation that for enabling professional management and effective utilization of the accruals to the NIF, the post of CEO should not be restricted to be filled through the Central Staffing Scheme, and instead, other professionals too should be considered for the assignment.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation (Sl. No.2, Para Nos. 34, 35 & 36)

While examining the Demands for Grants (2005-06), the Committee were informed that the matters pertaining to speedy disposal of cases pending with the Debt Recovery Tribunals (DRTs) were being taken up with the Chairpersons of DRATs and the Presiding Officers of DRTs. A proposal for amending the DRT Act and DRT (Procedure) Rules with a view to improving the recovery system was also informed to be on the anvil. The Committee, however, feel constrained to note that detailed information on the outcome of the efforts in this regard, including the changes proposed in the DRT Act and the related rules and procedures have not been furnished by the Ministry.

The Committee note that presently, as many as 27,807 cases involving a total amount of Rs. 92671.42 crores in dispute are pending adjudication with the DRTs. The Committee further note that though sub-section (24) of section 19 of the DRT Act stipulates a time frame of 180 days from the date of receipt of the application for clearing cases, the stipulation is very often not adhered to Ensuring speedy and effective system of disposal of cases being of utmost importance, the Committee once again emphasise on giving focused and serious attention to address the problem ailing the DRTs.

The Committee also note from the information furnished that presently there are nine vacancies of Presiding Officers in various DRTs. While seven of the vacancies have arisen owing to the completion of the tenure of the incumbents, two vacancies are said to have resulted due to the repatriation of the officers concerned. As informed by the Ministry action is underway for filling up the vacant posts. The Committee feel that initiation of advance action for filling up the vacancies in the DRTs should not be difficult, particularly when the tenure of the incumbents is known before hand. The Committee therefore, emphasise on evolving a viable system of initiation of advance action for filling up the vacancies in the DRTs without any time leg in demission of office by the service officers and the new incumbents taking charge. Adoption of such a policy measure would contribute in ensuring that the work of the DRTs is not hampered.

Reply of the Government

As regards improving the functioning of DRTs is concerned, it may be stated that subsequent to the passing of the Recovery of Debts due to Banks and Financial Institutions Act, 1993, the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 was enacted, giving much more powers to Banks to recover their dues without going to the Tribunal. Consequently the number of Original Applications filed by the Banks/Financial Institutions has come down to 6566 in 2005-06, as against 9327 Original Applications filed during the financial year 2003-04. The Government had appointed a Working Group to suggest improvements in the DRT system. The Working Group has submitted its report. To implement the important recommendations of the Working Group the Act needs to be amended. Before bringing in any amendments all concerned are to be consulted. The consultation process is in the final stages. The views of the Indian Banks' Association and the Reserve Bank of India have been received. The matter will be taken up with the Ministry of Low and necessary steps will be taken to amend the Act.

Debts Recovery Tribunals (DRTs) being quasi judicial bodies, the proceedings are held in accordance with the procedure laid down in Chapter IV of the Recovery of Debts due to Banks and Financial Institutions Act, 1993. While efforts are made by the tribunals to dispose of cases in accordance with Sub-section (24) of Section 19 of the DRT Act which stipulates that endeavor shall be made by the Tribunal to dispose of applications finally within one hundred and eighty days from the date of receipt of the application. There are instances where it has not been possible for the Tribunals to adhere to this time limit. The

Presiding Officers of DRTs and the Chairpersons of Debts Recovery Appellate Tribunals (DRATs) would also be consulted and the concerns about the delays in the disposal of cases would be conveyed to them.

Advance action has been initiated to fill up the vacancies which will arise on account of completion of tenure of incumbents. The High Courts have been requested to send nominations of suitable officers for filling vacancies which are likely to occur upto 31.3.2007 on account of completion of tenure of the incumbents.

Recommendation (S.No. 3, Para Nos. 49, 50, 51 & 52)

The Committee note that the SHG - Bank linkage programme has, particularly in the recent years, emerged as a major and effective means of 'financial inclusion' by making credit facilities available to the poor in the rural areas. While the active participation of Banks which include commercial banks, RRBs and Cooperative banks in the operation of the programme has resulted in an increase in the cumulative disbursement of credit facilities to the needy sections from about 57.00 crore in 1992-93 to 8319.00 crore in 2005-06, which is noteworthy, the Committee feel the need to emphasise on addressing some specific issues pertaining to the 'micro finance sector'. These include, *inter alia*, the regional imbalances, particularly between the north and the south in the growth and spread of SHG - Bank linkage programme; the reasonability of interest charged on 'micro credit' and regulation of micro finance institutions.

As evidenced from the written notes furnished by the Ministry, and the oral submissions made by the representatives of the Ministry of Finance, focused attention is being given or is proposed for ensuring regional balance in the growth of 'SHG-Bank linkage programme'. The Committee feel the need to emphasise on ensuring that NABARD plays a pro-active role in promoting the formation of SHGs, and activising NGOs to participate in the SHG-Bank linkage programme in the States where it has not gained ground.

The interest rate presently chargeable on 'micro-credit' ranges from 8 to 12 percent, which in the opinion of the Committee, is not in consonance with avowed objective of the SHG-Bank linkage programme, which is aimed at benefiting the needy and poor sections of the society. While the RRBs and Cooperative banks exercise freedom in fixing the lending rates, the 'Scheduled Banks' are to abide by the 'Bench mark rates' fixed by RBI in deciding on the lending rates. From the information furnished the Committee note that efforts are underway to bring down the interest chargeable on 'micro-credit' to a range of 6-8%. The Committee expect that effective policy measures are evolved for ensuring that the interest chargeable on micro credit is affordable and reasonable for the needy section.

The Committee further note that micro finance institutions can be registered in the form of societies, trusts, companies or cooperatives. Regulation of these institutions being an imminent necessity, the Committee expect the proposed legislation on micro finance institutions to be brought in at the earliest.

Reply of the Government

Due to a variety of reasons like presence of social capital by way of good NGOs, proactive role by the State Governments, better performance of SHGs etc. the SHG Bank Linkage Programme had a head start in the southern States in the year 2000-01, the share of the Southern Region was 71%. The southern region currently constitutes about 54% (March 2006) of the credit linked SHGs in the country. The region-wise distribution of number of SGHs - credit linked to banks for the year 2000-01 and 2005-06 is given below

Region	2000-01		2005-06	
	SHGs Credit linked to banks	Percent to Total	SHGs Credit linked to banks	Percent to Total
1	2	3	4	5
Northern	9012	3.4	133057	5.9

1	2	3	4	5
North Eastern	477	0.2	62517	2.8
Eastern	22252	8.4	394351	17.6
Central	28851	10.9	267915	12.0
Western	15543	5.9	166254	7.4
Southern	187690	71.2	1214431	54.3
Total	2,63,825	100	22,38,525	100

There is an effort to increase the spread of the programme in the regions other than the south as can be seen from the table above. To further reduce this gap, 13 States have been identified as priority States for this programme. They are Assam, Bihar, Jharkhand, Gujarat, Himachal Pradesh, Maharashtra, Madhya Pradesh, Chhattisgarh, Orissa, Rajasthan, Uttar Pradesh, Uttaranchal and West Bengal. Special focus on SHG Bank Linkage in these States is underway.

Reasonability of interest rates : The rates of interest charged on loans to SHGs by banks are governed by RBI guidelines. The commercial banks cannot charge more than the PLR on all loans upto Rs. 2,00,000/- as per existing RBI guidelines. Presently, banks charge interest rates in the range of 8.5% to 11.5% p.a. on loans to SHGs.

Regulation of micro finance institutions : The Finance Minister, in his budget speech for 2005-06, had announced that a Bill to provide a formal statutory framework for the promotion, development and regulation of the micro finance sector will be introduced. The said Bill is likely to be introduced soon."

"In order to reduce the regional imbalance in the spread of the SHG – Bank Linkage Programme, NABARD has identified 13 priority

States, which have a large population of the poor for focused attention. During the year 2005-06, significant increase was observed in the number of SHGs credit linked in priority States of Maharashtra (60,324), Orissa (57,640), West Bengal (43,553), Uttar Pradesh (42,263), Rajasthan (38,165), Assam (25,215), and Chhattisgarh (12,722). Proactive measures such as emphasis on priority States, enlisting partnerships and capacity building of partner agencies have served to expand the programme in non-southern States. The growth in SHG Bank Linkage Programme in the 13 priority States during the last 5 years is given below.

Cumulative Growth in SHG Bank Linkage

Priority State	2002	2003	2004	2005	2006
1	2	3	4	5	6
Assam	1024	3477	10706	31234	56449
Bihar	3957	8161	16246	28015	46221
Chhattisgarh	3763	6763	9796	18569	31291
Gujarat	9496	13875	15974	24712	34160
Himachal Pradesh	5069	8875	13228	17798	22920
Jharkhand	4198	7765	12647	21531	30819
Maharashtra	19619	28065	38535	71146	131470
Madhya Pradesh	7981	15271	27095	45105	57125
Orissa	20553	42272	77588	123256	180896
Rajasthan	12564	22742	33846	60006	98171

1	2	3	4	5	6
Uttar Pradesh	33114	53696	79210	119648	161911
Uttaranchal	3323	5853	10908	14043	17588
West Bengal	17143	32647	51685	92698	136251
Total	141804 (31%)	249462 (35%)	397464 (37%)	667761 (41%)	1005272 (45%)

Overall too, SHG Bank Linkage Programme has shown good progress. The Physical and Financial progress under the programme during 2005-06 is as under:

Year	Repeat loans to existing SHGs during the year	Fresh loans to new SHGs during the year	Cumulative no. of Credit linked SHGs at the end of the year	Bank loan during the year	Cumulative bank loan at the end of the year
2003-04	1,71,669	3,61,731	10,79,091	1855.53	3904.20
2004-05	2,58,092 (50%)	5,39,365 (49%)	16,18,456 (50%)	2994.25 (61%)	6898.45 (77%)
2005-06	3,44,502 (34%)	6,20,109 (15%)	22,38,565 (38%)	4499.09 (50%)	11397.55 (65%)

(Figures in brackets indicate percentage increase over the previous year)

"In order to enhance transparency in pricing of loan products of the banks, the Reserve Bank of India (RBI) has advised all the banks to announce a Benchmark Prime Lending Rate (BPLR) with the approval of their Board of Directors, taking into account the actual cost of funds, operating expenses, a minimum margin and to cover regulatory requirements of provisioning/capital charge and profit margin, to ensure that the BPLR truly reflects the actual cost. The banks determine the interest rates on loans above Rs. 2 lakhs to be charged to a particular borrower keeping in view their BPLR and, spread guidelines. Loans upto Rs. 2 lakhs carry the prescription of not exceeding the BPLR.

The interest rate applicable to loans given by banks to micro credit organizations or by the micro credit organization to SHGs/member beneficiaries have been left to their discretion. Banks have also been permitted to prescribe their own lending norms so as to provide maximum flexibility about micro lending. NABARD provides refinance to banks against their loans to Self Help Groups (SHGs). As SHG-Bank Linkage Programme aims at benefiting the poor sections of the society, the rate of interest on refinance is kept at the lowest slab. The prevailing interest rate on refinance to banks for their loans to SHGs is 6.5% p.a. per capita loan size upto Rs. 50,000/- and 7% p.a. above Rs. 50,000/-."

Work on the proposed legislation is being carried out and it is likely to be introduced in the Parliament soon.

Recommendation (S.No. 5, Para Nos. 69 & 70)

The Committee note that the proposal to set up an 'Investor Protect on Fund', under the aegis of the Capital Market regulator, SEBI as announced in the Budget 2006-07 is an imminent necessity as the prime objective of the 'regular' is to protect the interest of the investors in the securities market. As per the proposal relating to the establishment of the 'Fund' the amounts required for undertaking investor protection activities and measures are to be generated from the fines and penalties imposed by SEBI.

The Committee are of the view that particularly in the light of the surge being witnessed in the capital market operations in the recent past, and also aberrations on scams such as the recent 'IPO demat scam', it is absolutely essential on the part of SEBI to initiate investor protection activities in a big way. The Committee, however, note from information furnished that the amounts raised by SEBI, by way of imposing penalties totals to about 534 lakhs till date. This amount, in combination with the likely accruals of the future, may, in the opinion of the Committee be inadequate in enabling SEBI to plan and implement investor education and protection activities on a large scale. The Committee note in this regard that the proposal made earlier for shifting the 'Investor Education and Protection Fund' established under the Companies Act, 1956 and administered by the Ministry of Company Affairs to SEBI did not find favour. Given the need for undertaking investor protection and education activities in a big way by the Capital Market regulator, the Committee feel the need for impressing on the Government to ensure that SEBI is not, in any way, incapacitated in undertaking investor protection activities due to the inadequacy of funds available at its disposal.

Reply of the Government

In Budget 2006-07, it was announced that an investor protection fund under the aegis of SEBI will be set up, funded by fines and penalties recovered by SEBI. This will bolster confidence among retail investors who should be the key drivers of the capital market. The process of consultation with SEBI for setting up the said fund is already underway.

In the ongoing consultations with SEBI in the matter of setting up the Investor Protection Fund, it has been suggested that the Investor Education and Protection Fund would be credited by : (a) unclaimed amounts of dividend or interest lying with a mutual fund, collective investment management company or venture capital fund under any scheme of such fund or company; (b) amounts or securities of clients lying unclaimed with an intermediary in securities market; (c) monies lying unutilised in the Investor Protection Funds of the stock exchanges; (d) all sums realised by way of monetary penalty, disgorgement or settlement of proceedings under this Act; (e) grants and donations given to the Fund by the Central Government, State Governments, Companies or any other institutions for the purposes of the Fund; and (f) the interest or other income received out of the investments made from the Fund. The desirability and feasibility of income from these sources are being examined.

Recommendation (S.No. 6, Para Nos. 80 & 81)

The Committee note that unlike the previous year 2005-06, the projections of revenue and fiscal deficit reduction targets of the current year 2006-07 whereby the revenue and fiscal deficits are targeted to be brought down from 2.6% to 2.1% of the GDP, and from 4.1% to 3.8% of GDP respectively are in consonance with the FRBM road map which envisages to eliminate revenue deficit and bring down fiscal deficit to a level below 3% by 2008-09. The Committee had, in their report on the Demands for Grants of the Ministry of Finance for 2005-06, emphasized on strict adherence with the fiscal correction targets envisaged under the FRBM Act and Rules.

The FRBM Act is a comprehensive legislation covering rules relating to borrowing, deficit and debt. The Act casts an obligation on the Government to monitor the fiscal position not only by initiation of measures to increase revenues, but also by containing expenditure. The Committee note that while the FRBM rules limit the guarantees extendable by the Government to a maximum of 0.5% of the GDP in a year, the net accretion of guarantees at the close of 2004-05 has been slightly higher *viz.* 0.57% of the GDP. With regard to limiting the additional liabilities, which is budgeted at 7% and 6% of the GDP for 2006-07 and 2007-08 respectively, the Committee note that the Government is hopeful of achieving these targets subject to certain assumptions on exchange rate variations etc. The Committee feel the need to once again emphasise on ensuring that the fiscal corrections adhered to. The Committee also wish to be kept apprised on the policy measures pursued for adhering to and achieving the FRBM goals. As assured by the Finance Secretary during evidence, the Committee also wish to be apprised of the expenditure management reforms being undertaking and their effectivity in curtailing non-developmental expenditure.

Reply of the Government

Rule 3 of the FRBM Rules 2004 has set a target of annual reduction of at least 0.5 percentage points in revenue deficit and 0.3 percentage points in fiscal deficit. The deficit indicators in BE 2006-07 are consistent with these provisions.

I. Rule 3(3) of FRBM Rules 2004, prescribes a ceiling of 0.5 percent of GDP on net accretion of Government guarantees. The minor deviation of 0.07 percent of GDP in 2004-05 is mainly on account of guarantees given in favour of Food Corporation of India for procurement operations to ensure food security. This deviation has been explained in para 16 of the Fiscal Policy Strategy Statement presented to the Parliament in February 2006, as required under Sec. 7(3)(b) of the FRBM Act 2003 as well as in explanatory notes in Receipts Budget 2006-07 (Table at Annex. 3(iii) relating to Guarantees given by the Government as on 31.3.2005).

The Government is committed to comply with FRBM ceiling as enunciated in the FRBM Act 2003 and FRBM Rules 2004. In the context of keeping the guarantees within the ceiling, regular monitoring of net accretion of guarantees is undertaken on the basis of quarterly reports obtained from Financial Advisers of ministries/ departments. Guidelines on timely servicing of the Loans have been issued to various ministries/ departments so as to avoid invocation of guarantees. Further, in the context of overall deficit ceilings the Government continues to follow prudent fiscal policy with focus on revenue mobilization through wider tax base, better tax compliance as well as moderation in the growth of non-plan expenditure.

Ministry of Finance
Department of Expenditure

Subject:- Major initiatives/decisions taken by the Department of Expenditure during 2005-06

The agenda for the Department in the year gone by was guided by the framework provided by the following:

(i) The Prime Minister's Thrust Areas.

(ii) Initiatives on Expenditure Management announced by the Finance Minister in the Fiscal Policy Strategy Statement (FPSS) prepared under the Fiscal Responsibility and Budget Management Act in Budget 2005-06.

(iii) The recommendations of the 12th Finance Commission concerning fiscal reforms.

2. The Prime Minister's Thrust Areas set for D/o Expenditure included 5-planks of institutional reforms, *viz.* Decentralization, Simplification, Transparency, Accountability and e-governance. D/o Expenditure aimed to tighten financial discipline on the one hand while expediting financial decision making on the other.

3. Accordingly, the following major decisions were taken and projects were initiated:—

(i) One of the high points in the calender of events was the notification of new "General Financial Rules" from July 1, 2005. These Rules were last revised in a comprehensive manner in 1963 and since then were subjected to a series of isolated amendments. The existing rules as well as the plethora of Government Decisions were thus reviewed by a Task Force with the following basic approach:—

- The existing rules were reviewed taking into account recent developments in the financial sector, availability of new instruments in banking, insurance, material sourcing, information technology, communications, etc.

- Cumbersome procedures, causing unnecessary movement of papers between several layers of Government, have been simplified, devolving necessary authority, responsibility and direct accountability on the vital functionaries in Government to ensure speedier decision making.

(ii) The second major milestone development was the presentation of "Outcome Budget". In para 100 of the Budget Speech

(BE 2005-06) Hon. Finance Minister had announced as follows:—

"At the same time, I must caution that outlays do not necessarily mean outcomes. The people of the country are concerned with outcomes. The Prime Minister has repeatedly emphasized, the need to improve the quality of implementation and enhance the efficiency and accountability of the delivery mechanism. During the course of the year, together with the Planning Commission, we shall put in place a mechanism to measure the development outcomes of all major programmes. We shall also ensure that programmes and schemes are not allowed to continue indefinitely from one Plan period to the next without an independent and in-depth evaluation. Civil society should also engage Government in a healthy debate on the efficiency of the delivery mechanism."

Accordingly, the Department of Expenditure undertook a major exercise, with active participation of the Planning Commission, for compilation of Outcome Budget 2005-06. It was presented to Parliament on August 25, 2005 after a special presentation to the Parliamentary Consultative Committee attached to the Ministry of Finance on August 17, 2005. Guidelines were issued for preparation of Outcome Budget 2006-07 by the Ministries, to be presented to Parliament before the recess of the two Houses during the Budget Session. The Finance Minister presented Outcome Budgets 2006-2007 of the Flagship Programmes to both the Houses of the Parliament on March, 21, 2006.

(iii) It was decided that the Expenditure Finance Committee and the Public Investment Board will not consider any scheme/ project for appraisal unless the intended outcomes and timelines are clearly indicated in the proposal.

(iv) The Department undertook a record level of a appraisal activity for expenditure proposals on various Government schemes/projects as well as investments proposals of Central Public Sector Undertakings. In 2005-06, DoE cleared total expenditure of Rs.1,74,436 crore in 39 sittings, of PIB, 53 sittings of EFC and 11 sittings of CNE, compared to Rs. 1,18,112 crore in 2004-05.

(v) Ministries/Departments were asked to initiate action to obtain utilization certificates, audit certificates and expenditure statements, wherever due. A major drive was undertaken to clear the pending Utilization Certificates. Controller General of Accounts has reported that out of 87,270 utilization certificates involving Rs. 41,997 crore outstanding of grants released upto 31.3.2004, as many as 41,496 utilization certificates involving Rs. 30,195 crore have been cleared so far leaving 45,775 utilization certificates outstanding involving Rs.11,895 crore. Thus, there has been a 47% reduction in the number of pending utilization certificates and almost 72% reduction in the amounts involved in pending utilization certificates for grants released up to 31.3.2004. In a further tightening of discipline in this regard, the "economy instructions" issued on November 23, 2005 stipulate that in respect of all grants released prior to 1st April, 2002, two months' notice may be given to the concerned entities to furnish the required utilization certificates, failing which the amount should be deducted from future releases and credited to Government revenue as "refund of unused grants."

(vi) Norms governing re-appropriation of funds have been reviewed with the concurrence of the Comptroller and Auditor General and the Public Accounts Committee.

(vii) Ministries/Departments have been asked not to transfer funds under any Plan scheme in relaxation of conditionalities attached to such transfers (such as matching funding). Further, where a scheme contemplates a prior determination of each

State's entitlement of Central Budget support, the actual disbursements will be limited to these entitlements. Specifically, it will not be open to any Ministry/Department to release excess funds to any State by diverting "Savings" in respect of another State as the practice tends to aggravate imbalances.

(viii) Flexibility has been allowed to the Ministries in using the services of airlines other than Air India/Indian Airlines in domestic and overseas travel and telecom companies, other than MTNL/BSNL, guided only by the considerations of economy in expenditure. Accordingly, Ministries have been asked to avail of various incentives/concessional tariffs.

(ix) In order to ensure transparency, competition, fairness and objectivity in the procurement/bidding processes in the Government, it has been felt necessary to improve documentation of best practices. Hence, three Working Groups were constituted, one each for 'Goods', 'Works' and 'Consultancy', for preparation of 'Manual of Policies and Procedures', 'Bidding Documents', 'Guidelines to Purchaser', 'Guidelines to supplier', and 'Draft Standard Contracts' for different categories. Their reports have been finalised.

(x) The Department has taken the initiative for introduction of e-banking for transfer of funds to District level implementation agencies by the Ministries of Human Resource Development, Rural Development and Health & Family Welfare. It is contemplated that all the District Rural Development Agencies be covered on priority. The system is intended to have two distinct objectives. First is the "Speedy transmission of funds" to the implementing agencies in recognition of the importance attached to the developmental programmes and the second objective is to have an equally speedy feedback to the Ministries of actual utilization.

(xi) In pursuance of the accepted recommendations of the Twelft Finance Commission, the external loans to State Governments are now to be given on a back-to-back basis *i.e.* on the same terms and conditions on which it is received from the Central Government including interest rate, maturity, commitment charges and foreign exchange variation risk.

(xii) The Department has made major additions/improvements in disclosure of data on transfers to States on the Departmental website.

(xiii) The Department has initiated a major exercise to redefine the role, responsibilities and accountability of the Financial Advisors with measures to strengthen their authority and capacity.

CHAPTER III

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

-NIL-

CHAPTER IV

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

(Recommendation No. 1, Para Nos. 25, 26 & 27)

Though scheduled commercial banks were required to extend a minimum of 18 percent of their net banking credit to the agricultural sector, the actual quantum of such lending has been to the extent of 15.7 percent and 12.1 percent in the case of public and private sector banks respectively during 2004-05. With specific reference to the agricultural credit extended by Private Sector Banks, the Committee noted that the quantum of such credit extended by the banks had declined from 14.2 percent in 2003-04 to 12.1 percent in 2004-05.

An issue of concern noticed by the Committee was the fact that the net accruals to the Rural Infrastructure Development Fund (RIDF) on account of the deposits made by scheduled commercial banks to compensate the shortfalls in meeting the agricultural lending targets had been witnessing a steady increase viz., from Rs. 3874.09 crore (RIDF-IX) to Rs. 5836.25 crore (RIDF-X) and Rs. 6174 crore (RIDF-XI). What the Committee felt to be worrisome in that regard was the fact that a number of public sector banks too which include, the Bank of Baroda, Canara Bank and Corporation Bank had been making deposits amounting to hundreds of crores of rupees to the RIDF on a continued basis owing to the inability in meeting the agricultural lending targets. As admitted by the representatives of the Ministry of Finance, the RIDF deposits and accruals, which were intended to create tangible assets in the rural sector, could not be perceived to be a viable alternative to the extension of credit facilities to the farming community. The Committee, therefore, emphasised on the need for evolving an effective means for ensuring that the Banks did not deviate from the mandated level of disbursement of credit to the agriculture sector and the weaker sections. In the opinion of the Committee, the need to ensure that Banks abide by the mandated level of extending agricultural credit acquired added importance in view of meeting the envisaged target of doubling the flow of credit to agriculture sector by 2006-07.

With specific reference to the Budget announcement of extending agriculture credit at 7 percent rate of interest, the Committee noted from the information furnished that the modalities relating thereto were being worked out in consultation with the Bankers and NABARD. The Committee wished to be apprised of the policy measures finalised for giving effect to the proposal for enabling flow of agricultural credit at the interest rate of 7 percent.

Reply of the Government

"The Committee's observation that the decline in the share of credit to agriculture by private sector banks from 14.2% in 2003-04 to 12.1% in 2004-05 is based on the Net Bank Credit (NBC) of the private sector banks i.e. outstanding credit as on 31.03.2004 and 2005 respectively. However, the credit flow in absolute terms to agriculture by the private sector banks have registered an increase from Rs.17651.77 crore in 2003-04 to Rs.21472.63 crore in 2004-05 showing an increase of 21.64%. It would also be pertinent to mention here that the indirect agricultural advances (outstanding) by the private sector banks as at end of March, 2005 was 5.82% of Net Bank Credit. However, while calculating the percentage of total lending to the agriculture sector, this figure has been taken at 4.5%. Similarly, the share of these banks to the total agricultural credit by all agencies has also improved from 11.76% in 2003-04 to 12.98% in 2004-05."

"In June, 2004, the Government had announced its intention to double the flow of credit to agriculture sector in 3 years. The flow of credit by various agencies is being monitored on a continuous basis and it has grown by 33% in 2004-05 and 33.89% in 2005-06. The quantum of credit flow to agriculture and allied activities has grown from Rs. 86,981 crores in 2003-04 to Rs.167,775 crores (provisional) in 2005-06 thus, showing a growth of 93%. The target of doubling the agriculture credit flow has almost been achieved in 2 years. During this period the flow of agricultural credit from commercial banks (both public and private sector) has grown from Rs.52,441 crores to Rs.1,16,447 crores (provisional) showing an increase of 122%.

The target for the year 2006-07 has been fixed at Rs.175,000m crores and in all likelihood would surpass this figure.

The number of public sector banks achieving the targets of 18% credit to agriculture as a percentage of net bank credit has grown from 4 in March, 2003 to 12 in March, 2005. This reflects the importance being given by these banks to agricultural lending."

"Pursuant to the announcement of the Finance Minister in the Budget Speech for the year 2006-07 that Govt. will provide short term agricultural loans to farmers at 7% with an upper limit of Rs.3,00,000 on the principal amount, the following scheme of subvention has been implemented.

(a) Subvention of 2% p.a. to Public Sector Banks and RRBs on their own funds used for short term credit. These banks are under the administrative control of the Govt. of India and the Govt. is the majority shareholder.

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

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

2006-07	—	2.5% p.a.
2007-08	—	3.0% p.a.
2008-09	—	3.5% p.a.
2009-10	—	4.0% p.a.

The quantum of refinance assistance to cooperatives by NABARD will be enhanced from Rs. 8,000 crore last year to Rs. 14,000 crore in 2006-07.

Taking a cue from the subvention provided by Govt. of India to the Public Sector Banks and RRBs and by a few states to the Cooperative Banks, other State Govts. also need to seriously consider providing interest subsidy to Cooperative Banks on the amount of their own involvement to ensure that they can disburse ground level credit at the maximum of 7%. This will go a long way in mitigating the problems of farmers. States have been asked to consider this favourably and expeditiously in view of the fact that lending to farmers has started for the Kharif crop. Finance Minister has addressed a letter to the Chief Ministers urging them to take necessary steps in this behalf."

(Recommendation Sl.No. 4 Para No. 61, 62 & 63)

The Committee are concerned to note that the post tax profit of the four public sector general insurance companies declined from Rs.1364 crores in 2003-04 to Rs.1172 crore in 2004-05. The market share of the companies too come down from 85.52% in 2003-04 to 79.93% in 2004-05 which amounted to a fall of 5.59% as compared to the previous year. The Committee had, while examining the Demands for Grants of the Ministry of Finance for the year, 2004-05 laid stress on the need for upgrading the operations and quality of services of the non life public sector insurance companies in view of the slipping market share of the companies, which was to the extent of 4.5% in the year (2004-05). What the Committee find to be particularly disturbing to note is also fact that unlike the cases of non-life private sector insurers, who have, more or less, met the limits of allowable management expenditure, the management expenses incurred by the four public sector general insurance companies was well above the permissible limits in 2003-04 and 2004-05.

The declining profits, share and excessive management expenditure of the public sector general insurance companies being a matter of serious concern, the Committee understand that the Government proposed to address issues ailing these companies by devising an 'MoU' to be entered into with the managements of the companies. The parameters of the proposed MoUs, as informed to the Committee, would include, *inter alia*, business growth targets, prudent underwriting of business, yields on investment and management expenses. The Committee wished to be apprised of the progress on the policy measures contemplated for reversing the declining profit trend and market share of the public sector general insurance companies.

The Committee feel dismayed to note the facts and figures pertaining to the implementation of the Universal Health Insurance Scheme (UHIS), which as announced in the Budget, 2004-05, was intended to aid the BPL households by providing the beneficiaries a personal accident cover and reimbursement of hospitalisation charges. The fact that the targeted number of 10 lakh beneficiaries under the scheme for the year 2004-05 could not be achieved even after shifting it over to the subsequent year, 2005-06, and as many as 3197 of the total of 6288 claims were reportedly pending settlement is, in the opinion of the Committee indicative of serious flaws in operationalising the scheme. Moreover, figures showed that the public sector insurance companies received premium payments under UHIS (borne by Government) over last three years amounting to Rs.24.42 crores while claims paid were only of the order of Rs.1.59 crores. The Committee, therefore, desired that the various aspects of the Universal Health Insurance Scheme be assessed in detail and remedial measures taken by redesigning and reformulating the scheme so that the needy sections were actually benefited from the scheme.

Reply of the Government

With the entry of 8 private insurance companies in general insurance business, there has been decline in the market share of the public sector non-life insurance companies. The fall in the post-tax profits of the public sector general insurance companies is partly due to the increase in expenses due to implementation of Special Voluntary Retirement Scheme (SVRS) in 2003-04, provisions made in 2004-05 for impending wage revision and also due to increased losses in motor third party and mediclaim portfolios.

The companies have initiated steps for increasing the portfolio under corporate tie ups and opening of extension counters in rural areas for tapping the untapped business which will lead to retention of the market share in the long run. The implementation of SVRS and higher growth in business are expected to bring down the management expenses to the permissible limits.

After detailed discussions with the CMDs on various issues such as declining profit, share and excessive management expenses etc., the Government has finalized a set of efficiency parameters for monitoring the performance of 4 public sector general insurance companies. A Statement of Intent of Annual Goals for 2006-07 has already been signed with National Insurance Company, Oriental Insurance Company and United India Insurance Company. New India Assurance Company has been advised to attempt an ambitious target of gross and net growth at 10% during 2006-07. The Company has been requested to revise all the quantitative parameters and send a duly signed 'Statement of Intent of Annual Goals' to the Ministry. Based on the commitments made by the companies their performance would by evaluated on quarterly basis and in case of any deviations from the targets the necessary corrective action would be taken by the management.

The companies have upgraded the hardware and software components of their Information Technology infrastructure leading to improvement in internal capabilities, procedures and controls related to underwriting, rating support, policy terms & conditions and corporate governance. Networking of offices, which is being carried out, will further improve the quality of services by facilitating online issue of policies, quicker settlement of claims resulting in better customer satisfaction so as to effectively face the competition from private players.

On specific directions of the Finance Minister, it has been decided to review Universal Health Insurance Scheme being implemented by the public sector general insurance companies. A meeting was organized with the public as well as private insurance companies on 14.6.2006 with a view to seek inputs from them for considering revision of the UHIS. Suggestions so received are being examined in order to make the UHIS an effective schemes.

Recommendation (S.No. 7, Para No. 93)

The Committee regret to note that inspite of their repeated recommendations, the Government had not placed the much awaited policy document on Disinvestment in Parliament. In this connection, the Committee recalled their earlier recommendations in their Reports on Demands for Grants, 2004-05 as well as 2005-06 and subsequent Action Taken Reports thereon urging the government to bring out a Comprehensive Policy document addressing aspects e.g. valuation, employee welfare etc. because in the absence of a clear cut policy, the Government was forced to evolve a new methodology every time to deal with a particular situation. The Committee also recalled the Government's categoric response to their earlier recommendations wherein the Government had stated that the White Paper on Disinvestment was under preparation and was expected to be tabled during the Monsoon Session of Parliament 2005. However, as the Committee noted that the proposed White Paper was stated to be still under consideration of the Government, they were inclined to conclude that the government was perhaps, not keen to come out with their policy document on disinvestment in the public domain. Therefore, the Committee would like to emphatically reiterated their oft-repeated recommendation that the Government must expedite the consideration of White Paper and come out with this policy document, without any further delay. The Committee also noted that the Government's emphasis was to list, large, profitable CPSEs on domestic Stock Exchanges and to selectively sell small portions of equity in listed, profitable CPSEs (other than the navratnas). They were of the opinion that it was essential that the policy of the Government on this matter was discussed in the Parliament. The White Paper, should be comprehensive document covering all aspects of disinvestment policy especially issues related to disinvestment of companies like rationale of disinvesting a company, benefits available to the retrenched employees, their other interests, possible rehabilitation.

Reply of the Government

On 6th July, 2006, the Government decided to keep all disinvestment decisions and proposals on hold, pending further review. The White Paper on Disinvestment in CPSEs will be placed for information of Parliament after the review by Government is completed.

Recommendation (S.No. 8, Para Nos. 103 & 104)

The Committee find that the Government have already constituted a National Investment Fund into which the proceeds of disinvestment of Government equity in CPSEs would be channelised. They further note that the Government have also selected UTI Mutual Fund, SBI Mutual Fund & LIC Mutual Fund as the three largest public sector mutual funds as Fund Managers. However, the Committee feel that while the NIF is a good move, its efficacy will hinge on the disinvestment proceeds accruing to the fund.

In so far as managing the NIF was concerned, the Committee noted the Government's decision that the post of CEO, NIF would be filled through Central Staffing Scheme. They, however, felt that as this post needed experts who were equipped to deal with technical and complex economic issues, the Government should not limit their options for appointment of CEO, NIF only to bureaucrats and consider professionals/experts from the field also for the said post. The Committee feed that, this way the fund would have better chances of being professionally managed and effectively utilized. In line with their earlier recommendation made during examination of Demands for Grants (2005-06), wherein they had stated that several important issues relating to the management of funds and utilization of the proceeds of income from the fund need to be addressed in detail, the Committee further recommend that utmost care should be taken to select competent auditors/auditing firms with proven track record for this job, and their independence must be ensured.

Reply of the Government

The rationale for filling the post of CEO, NIF through the Central Staffing Scheme is that he will mainly have a supervisory and administrative role and take decisions on the basis of the advice of the Advisory Board. While selecting an officer for this post, his qualifications and experience would be kept in view. The part-time Advisory Board consisting of 3 eminent persons with requisite experience for advising CEO, NIF on various aspects of functioning of NIF, has been constituted.

The books of account will be audited yearly by a Chartered Accountant to ensure that the Fund Manger has followed proper accounting methods and procedures and that the Fund Manager has performed his duties in accordance with law. Similarly, the portfolio accounts of the Fund Managers shall be audited annually by a Chartered Accountant and a copy of the certificate issued by the Chartered Accountant shall be give to CEO, NIF. The Chartered Accountants so appointed, must be on the approved list of Comptroller and Auditor General and have experience of Treasury/ Mutual Fund audit operations.

CHAPTER V

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

-NIL-

NEW DELHI;	MAJ. GEN. (RETD.) B.C. KHANDURI,
11 *December*, 2006	*Chairman,*
20 *Agrahayana*, 1928 *(Saka)*	*Standing Committee on Finance.*

ANNEXURE

MINUTES OF THE THIRTEENTH SITTING OF STANDING COMMITTEE ON FINANCE

The Committee sat on Thursday, 7th December, 2006 from 1500 to 1610 hrs.

PRESENT

Maj. Gen. (Retd.) B.C. Khanduri—*Chairman*

MEMBERS

Lok Sabha

2. Shri Jaswant Singh Bishnoi
3. Shri Shyama Charan Gupta
4. Shri Bhartruhari Mahtab
5. Shri Rupchand Pal
6. Shri Prakash Paranjpe
7. Shri P.S. Gadhavi
8. Shri K.S. Rao
9. Shri Lakshman Seth
10. Shri A.R. Shaheen
11. Shri G.M. Siddeshwara
12. Shri M.A. Kharabela Swain

Rajya Sabha

13. Shri Santosh Bagrodia
14. Shri Mahendra Mohan
15. Shri Chittabrata Majumdar

SECRETARIAT

1. Shri A. Mukhopadhyay — *Joint Secretary*
2. Shri S.B. Arora — *Deputy Secretary*
3. Shri T.G. Chandrasekhar — *Under Secretary*
4. Smt. Anita B. Panda — *Under Secretary*

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

3. ** ** ** ** **

4. The Committee, then took up for consideration the draft Report on action taken by the Government on the recommendations/ observations contained in the 36th Report on Demands for Grants (2006-07) of Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment).

ANNEXURE

[MODIFICATIONS/AMENDMENTS MADE BY STANDING COMMITTEE ON FINANCE IN THEIR DRAFT ACTION TAKEN REPORT ON THE RECOMMENDATIONS/OBSERVATIONS CONTAINED IN THE THIRTY-SIXTH REPORT ON DEMANDS FOR GRANTS (2006-07) OF THE MINISTRY OF FINANCE (DEPARTMENTS OF ECONOMIC AFFAIRS, EXPENDITURE AND DISINVESTMENT)]

Page	Para	Amendment / Modification
16	29 Last line	*After* "....recapture the lost market share." *Add* "The Committee would also like to be apprised of the details of the parameters laid down and followed by the public and private sector general insurance companies for calculating the management expenses as well as the profit and loss accounts of the companies for the preceding five financial years."

APPENDIX

(*Vide* Para 3 of the Introduction)

ANALYSIS OF THE ACTION TAKEN BY GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE THIRTY-SIXTH REPORT OF THE STANDING COMMITTEE ON FINANCE (FOURTEENTH LOK SABHA) ON DEMANDS FOR GRANTS (2006-07) OF THE MINISTRY OF FINANCE (DEPARTMENTS OF ECONOMIC AFFAIRS, EXPENDITURE AND DISINVESTMENT)

		Total	% of total
(i)	Total number of Recommendations	8	
(ii)	Recommendations/observations which have been accepted by the Government (*Vide* Recommendations No. 2 (Para Nos. 34, 35 & 36), 3 (Para Nos. 49, 50, 51 & 52), 5 (Para Nos. 69 & 70) and 6 (Para Nos. 80 & 81)	4	50%
(iii)	Recommendations/observations which the Committee do not desire to pursue in view of the Government's replies (Nil)	Nil	0%
(iv)	Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee (*Vide* Recommendation Nos. 1 (Para Nos. 25, 26 & 27), 4 (Para Nos. 61, 62 & 63), 7 (Para No. 93) and 8 (Para Nos. 103 & 104)	4	50%
(v)	Recommendation/Observation in respect of which final reply of the Government is still awaited (Nil)	Nil	0%