FIFTY-NINTH REPORT

STANDING COMMITTEE ON FINANCE
(2007-08)

(FOURTEENTH LOK SABHA)

MINISTRY OF FINANCE (DEPARTMENTS OF ECONOMIC AFFAIRS, EXPENDITURE & DISINVESTMENT)

DEMANDS FOR GRANTS
(2007-08)

[Action taken by the Government on the recommendations contained in the Fifty-first Report of the Standing Committee on Finance on Demands for Grants (2007-08) of the Ministry of Finance (Departments of Economic Affairs, Expenditure & Disinvestment)

Presented to Lok Sabha on 4.12.2007

Laid in Rajya Sabha on 4.12.2007

LOK SABHA SECRETARIAT
NEW DELHI

November, 2007/*Agrahayana,* 1929 *(Saka)*

CONTENTS

		Page
Composition of the Committee		(iii)
Introduction		(v)
Chapter I	Report	1
Chapter II	Recommendations/Observations which have been accepted by the Government	11
Chapter III	Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies	29
Chapter IV	Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee	33
Chapter V	Recommendations/Observations in respect of which final replies of the Government are still awaited	43
	Annexure	
	Minutes of the sitting of the Committee held on 28th November, 2007	45
	Appendices	
	Analysis of Action Taken by the Government on the recommendations contained in the Fifty-first Report of the Standing Committee on Finance on Demands for Grants (2007-08) of the Ministry of Finance (Departments of Economic Affairs, Expenditure & Disinvestment)]	47

COMPOSITION OF STANDING COMMITTEE ON FINANCE (2007-2008)

Shri Ananth Kumar — *Chairman*

MEMBERS

Lok Sabha

2. Shri Jaswant Singh Bishnoi
3. Shri Gurudas Dasgupta
4. Shri Shyama Charan Gupta
5. Shri Vijoy Krishna
6. Shri A. Krishnaswamy
7. Dr. Rajesh Kumar Mishra
8. Shri Bhartruhari Mahtab
9. Shri Madhusudan Mistry
10. Shri Rupchand Pal
11. Shri Prakash Paranjpe
12. Shri P.S. Gadhavi
13. Shri R. Prabhu
14. Shri K.S. Rao
15. Shri Magunta Sreenivasulu Reddy
16. Shri Jyotiraditya Madhavrao Scindia
17. Shri Lakshman Seth
18. Shri A.R. Shaheen
19. Shri G.M. Siddeshwara
20. Shri M.A. Kharabela Swain
21. Shri Bhal Chand Yadav

Rajya Sabha

22. Shri Santosh Bagrodia
23. Shri Raashid Alvi
24. Shri M. Venkaiah Naidu

25. Shri S.S. Ahluwalia
26. Shri Mahendra Mohan
27. Shri Mangani Lal Mandal
28. Shri C. Ramachandraiah
29. Shri Vijay J. Darda
30. Shri S. Anbalagan
31. Shri Moinul Hassan

SECRETARIAT

1. Dr. (Smt.) P.K. Sandhu	—	*Additional Secretary*
2. Shri A. Louis Martin	—	*Joint Secretary*
3. Shri S.B. Arora	—	*Director*
4. Shri G. Srinivasulu	—	*Deputy Secretary-II*
5. Ms. Shanta B. Datta	—	*Executive Assistant*

INTRODUCTION

I, the Chairman of the Standing Committee on Finance, having been authorized by the Committee to present the Report on their behalf, present this Fifty-ninth report on action taken by Government on the recommendations contained in the Fifty-first Report of the Committee (Fourteenth Lok Sabha) on Demands for Grants (2007-2008) of the Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment).

2. The Fifty-first Report was presented to Lok Sabha on 28th April, 2007 and laid in Rajya Sabha on 3rd May, 2007. Replies indicating action taken on all the recommendations contained in the Report were furnished by the Government on 30th July, 2007.

3. The Committee considered and adopted this Report at their sitting held on 28 November, 2007.

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

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

NEW DELHI;
28 *November,* 2007
7 *Agrahayana,* 1929 *(Saka)*

ANANTH KUMAR,
Chairman,
Standing Committee on Finance.

CHAPTER I

REPORT

This Report of the Standing Committee on Finance deals with action taken by Government on the recommendations/observations contained in their Fifty-first Report (Fourteenth Lok Sabha) on Demands for Grants (2007-08) of the Ministry of Finance (Departments of Economic Affairs, Expenditure & Disinvestment) which was presented to Lok Sabha on 28th April, 2007 and laid in Rajya Sabha on 3rd May, 2007.

2. The Report contained 13 recommendations. Action taken notes have been received from the Government in respect of all the recommendations pertaining to Departments of Economic Affairs, Expenditure and Disinvestment contained in the Report. These have been categorised as follows:

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

Recommendation Nos. 1, 4, 6, 7, 8, 9 and 11

(Total 7)

(Chapter II)

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

Recommendation Nos. 2 and 13

(Total 2)

(Chapter III)

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

Recommendation Nos. 3, 5 and 10

(Total 3)

(Chapter IV)

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

Recommendation No. 12

(Total 1)

(Chapter V)

3. The Committee desire that the replies of the observations contained in Chapters I & V may be furnished to them expeditiously.

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

A. Setting up of Stabilisation Fund

Recommendation (Sl. No. 1, Para No. 21, 22 & 23)

5. Keeping in view the rising inflation, the Committee suggested that measures such as strengthening Public distribution System as an instrument of intervention in the market, withdrawal of other essential commodities from futures trading and setting up of a stabilization Fund to address changes in international oil prices be taken for controlling inflation.

6. The Government in their action taken reply have, *inter-ralia*, stated that the following administrative measures were taken:

- Reduction in the retail prices of petrol by Rs. 2 per litre and diesel by Rs. 1 per litre first in November, 2006 and again in February, 2007.
- Suspension of futures trading in tur and urad from January 24, 2007 and in wheat and rice from February 28, 2007.
- Extending up to August 28, 2007, the order enabling the State Governments to prescribe stock limits, etc., in respect of wheat and pulses under the Essential Commodities Act.
- Constitution of an Expert Committee under the chairmanship of Prof. Abhijit Sen, Member, Planning Commission, to look into all the issues relating to futures trading.
- Strengthening the monitoring mechanism of the public distribution system.

7. The Committee note that the Government have taken a number of measures to control inflation. The Government's reply is, however, silent on the Committee's specific suggestion for setting up stabilization fund to address changes in international oil prices as one of the measures to contain inflation. The Committee hope that the Committee's suggestion has been taken note of for appropriate action.

B. Computerisation and implementation of core banking solutions in public sector banks

Recommendation (Sl. No. 3, Para Nos. 47, 48 and 49)

8. The Committee were concerned to find that the public sector banks had lagged behind their private and foreign counterparts in implementing modern technology for banking operations as only 10 of the 27 public sector banks were stated to be fully computerized despite incurring a huge expenditure of Rs. 10,676 crore in the preceding few years. The Committee had noted that public sector banks initiated the implementation of CBS in the year 2004-05 and that it would take another four years to complete the process. Taking serious note of the tardy progress so far made by the public sector banks in modernization the Committee recommended that (i) appropriate measure be taken for implementation of modern technology in public sector banks at a faster pace, (ii) RBI should impress upon the banks to complete the transformation towards Core Banking Solution (CBS) at the earliest, and; (iii) Government/RBI must provide assistance to the banks in addressing problems relating to computer hardware and software, networking equipments, skilled manpower etc., which were said to be hindering the progress of modernization of the public sector banking practices and processes.

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

- The amount indicated reflects a 7 year period from 1999 to 2006.
- Computerisation in the first part of the period was based on the CVC directive to computerise all business of the PSBs.
- The approach at that time was to computerise bank business but now the objective is to computerise bank operations at branches.
- The real thrust towards implementation of Core Banking Solutions (CBS) has been taking place from the year 2004-05 onwards.
- Some of the amounts spent by banks may not be on CBS per se but for computerisation, networks etc. as well.
- Implementation of CBS requires many aspects to be taken care of, such as the provision of central servers, reliable networks, Business Continuity systems to take care of Disaster Recovery Management, Process Re-engineering etc. Further, implementation of CBS at each branch takes some time and hence the time line indicated.

- The comparison between the PSBs and private (new private sector) may not be a justifiable one since the RBI has been insisting that new private sector banks shall commence operations only on a fully technology base which is not the case for the PSBs. As far as old private sector banks are concerned, they are at various stages of implementation of CBS. Foreign banks are part of the global approach followed by their respective head offices; foreign banks do have an edge over Indian banks in terms of IT implementation since they have had an early start while Indian banks had to grapple with issues relating to manpower, unions, change in attitudinal aspects, average age of the employees etc., before the large scale implementation of IT based systems could commence.
- The problems indicated are true.
- As far as CBS systems are concerned, there are only a few reliable solution providers and the choice of range available is not very large.
- Legacy issues continue to be a challenge which PSBs are faced with.
- Implementation of systems such as the CBS across branches is generally a decision taken by the management of banks keeping in focus the benefits accruing out of the IT based implementation and the local customer preferences. This has resulted in banks focusing CBS implementation at large, metro and urban branches in the initial phase. The other branches are now being covered by banks in a phased manner.
- As far as the role of the RBI is concerned, RBI does not provide any prescriptive details to banks; banks are free to implement systems which meet the overall parameters. Nevertheless, in respect of CBS, the RBI does monitor this in a broad manner and this is a matter for discussion during the periodical review meetings with the in-charges of the IT Departments of banks held by the RBI.

10. The Committee are dismayed to note that the Government has put forth a number of problems/excuses to justify the slow pace of implementation of modern technology for banking operations. They are of the view that the managements of the public sector banks should have anticipated the technological and human resource related problems encountered in computerization of the banks especially implementation of Core Banking Solutions (CBS) and taken suitable measures to address these problems (instead of citing these very issues as reasons for four year deadline for completion). The

Committee believe that had the public sector banks taken timely action for technological upgradation, it would have put them on par with their private and foreign counterparts in much needed efficiency in delivery of services. The Committee, therefore, reiterate that appropriate measures be taken for implementation of modern technology in public sector banks at a faster pace.

C. Lending to Weaker Sections by Commercial Banks

Recommendation (Sl. No. 4, Para Nos. 58 and 59)

11. The Committee observed that the principal reasons cited for non-compliance of the lending targets for the weaker sections include, *inter alia*, delay in submission of forms by sponsoring agencies, lack of awareness of guidelines of schemes among officials of both sponsoring and banks, poor sponsoring of applications, poor recovery and defaults by borrowers. The Committee recommended in this context that the Government/RBI should take appropriate steps for increasing awareness and enabling effective co-ordination between banks and sponsoring agencies so that timely credit is made available to the borrowers.

12. The Government in their Action taken reply, *inter-alia*, stated as under:

> "In order to make the financially-excluded as also the existing customers of banks, aware of the various financial products and services available in the market/offered by the banks and also to make them understand the benefits and ways to join the formal financial system, RBI has embarked upon the project of Financial Education. A Steering Group on Reaching Out to the Common Man has already been constituted in the RBI for launching the financial education programme.

13. The Committee are glad to note that in pursuance of the Committee's recommendation, the RBI has embarked upon the project of Financial Education to promote, among weaker sections, awareness of various financial products and services offered by the banks. A Steering Group has reportedly been constituted in the RBI for launching the project. It is, however, not clear, when the Steering Group was constituted and how soon the programme will be launched. The Committee hope that the educational programme will be launched expeditiously to ensure that lending targets for weaker sections are achieved without fail during the current year.

D. Crop Insurance

Recommendation (Sl. No. 5, Para Nos. 70, 71, 72 and 73)

14. The Committee reiterated their earlier recommendation on the need for standardizing and fixing the unit area of insurance as 'Gram

Panchayat'. In view of the problems cited by the representatives of the Ministry of Finance during the course of evidence the Committee desired that the Ministry of Finance should come out with a status paper on crop insurance scheme within a period of three months specifying the extra trained manpower and extra funding which were required for undertaking additional crop cutting experiments as a result of reducing the unit of insurance to the village panchayat level.

15. In the light of the unaffordable rates of premium charged by the Agriculture Insurance Company (AIC) under Varsha Bima Yojana the Committee also recommended that the Government needed to subsidize the premium under the scheme so that a large number of farmers could avail the scheme.

16. The Government in their reply stated *inter alia* as under:

> "Gram Panchayat has been recommended as 'unit of insurance' by various Committees. Some of the states have already taken steps in this direction.
>
> The National Agricultural Insurance Scheme (NAIS) in its existing form does provide for smaller insurance unit *viz*. village panchayat. However, the States could not lower the insurance unit to the desired level because of the huge consequent increase in the number of CCEs required to be conducted and the consequent manpower requirement and the costs involved. As mentioned in the report of the Joint Group submitted to the Government, a sample exercise was conducted a few years ago under CCIS which broadly estimated an anticipated increase in the cost of the programme by about 35% for every one level of reduction in the size of the insurance unit i.e. from block/taluka to Village panchayat.
>
> The Joint Group also studied the manpower and the cost implications and made the following recommendations:
>
> State should make use of the existing manpower of the concerned departments to the extent possible. However, where existing manpower is inadequate, staff identified by the State Government as surplus may be trained and re-deployed. Additional Manpower can also be out-sourced in consultation with the implementing agency from agri-clinics, agri-preneurs, agricultural universities, KVKs, retired department officials, unemployed agricultural graduated etc.

Assuming that the three major crops would be notified at village panchayat level (on an average two during Kharif and one during Rabi), the number of CCEs required at the village panchayat level based on the sample size of 8 CCEs per unit per crop would be 24 (i.e. 8 x 3). With nearly 2.2 lakh village panchayats likely to be notified for the major crops, 50 lakh additional CCEs would be required to lower the insurance unit to village panchayat. The cost of conducting each CCE is estimated at Rs. 300. At an estimated cost of Rs. 300 per CCE, the cost of 55 lakh CCEs (existing 5 lakhs + additional 50 lakhs) could be of the order of Rs. 165 crores, of which approx. 90% of the expenditure is recurring. The Joint Group, after considering the importance of reduction of insurance unit and the costs involved in conducting additional CCEs, recommended that the costs for CCEs may be shared between the Government of India and States on 50 : 50 basis.

The reduction in the size of the insurance units as already experimented by some of the states for certain areas and crops as stated above, has raised a question mark on the quality aspects of the Crop Cutting Experiment exercise for various reasons such as lack of adequate and trained manpower with the concerned Departments of the State Governments, lack of required additional funds for conducting the huge number of CCEs required to be conducted, NSSO's inability to meet the stipulated supervision norms, the local influence of the farmers, their groups and associations, and the local opinion leaders etc., besides having resulted in manifold increase in the administrative work for the Implementing Agency.

The Varsha Bima was launched in 130 districts in the country in Kharif 2006 season and Weather based Insurance Scheme was launched in Rajasthan, Madhya Pradesh, Uttar Pradesh and Maharashtra during Rabi 2006-07 season.

17. The Committee regret that though the Joint Group, set up by the Ministry of Agriculture, had *inter-alia* recommended reduction in the size of insurance units from block/taluka to 'Gram Panchayat' for crop insurance, the Government response seems to be non-commital. The reply of the Government is also silent on Committee's specific recommendation on subsidizing the premium which ranges from 6%-9% under Varsha Bima Yojana. The Committee in this connection would like to point out that the Government, in its own submission earlier, had admitted that there was a need to keep the premium rates affordable by subsidizing the scheme. The Committee, therefore, reiterate that unit area for crop insurance should be Gram Panchayat and there should be subsidised premium rates under Varsha Bima Yojana to benefit a large number of poor farmers.

E. SEBI-Investor Protection Fund

Recommendation (No. 7, Para No. 98)

18. Taking note of the delay in setting up of Investor Protection Fund under the aegis of SEBI, as proposed in the Budget 2006-07, the Committee had recommended that the Government should bring the legislative amendments required to create a centralized Investor Protection Fund with SEBI without further delay.

19. The Government in their action taken reply have stated that a draft Cabinet Note seeking amendments to the SEBI act for, *inter alia,* this purpose has been prepared and sent to various Ministries/ Departments for comments. Consultations with Ministry of Law and Justice are under progress to finalise the proposals in the Cabinet Note.

20. The Committee regret to note that even 20 months after announcement of the proposal for setting up of Investor Protection Fund with SEBI, the legislative amendments required for the purpose have not been finalized as yet. Inter-Ministerial consultations in this regard are stated to be still in progress. The Committee urge that the legislative proposals in this regard be finalized expeditiously and amendment Bill for the purpose introduced in Parliament soon thereafter.

F. Achievement of FRBM Targets

Recommendation (Sl. No. 10, Para Nos. 130 and 131)

21. In view of the Planning Commission's submission that it may not be easy for the Government to cut the revenue deficit from 2.1% in 2006-07 to zero percent by 2008-09 while also achieving large increases in Plan expenditure and also in view of the increase in revenue expenditure by 6.5% in 2007-08 (BE) the Committee were inclined to believe that adhering to fiscal correction targets and measures stipulated under the FRBM Act would be an extremely difficult task for the Government. The Committee, therefore, while emphasizing on the need for strict adherence to deficit reduction targets, recommended to prepare a detailed note on the policy measures by way of which the FRBM goals were proposed to be achieved.

22. The Government in their action taken reply stated *inter alia* as under:

> "The fiscal outcomes projected in the Task Force Report are subject to various assumptions while the implementing process, being dynamic, is expected to respond to economic developments on a real time basis. During the FRBM mandated regime, on the strength

of buoyant tax performance and institutional improvements in conjunction with measures to rationalize expenditure, the fiscal performance is on course. The non-plan expenditure as a percentage of GDP, including interest payments, defence, petroleum and fertilizers subsidies, has been progressively declining during the past four years as can be seen in the following table.

Trends in Non Plan Expenditure as a percentage of GDP

	2004-05	2005-06	2006-07	2007-08 BE
Non-Plan Expenditure	11.70	10.25	10.01	9.40
Major components:				
Interest payments	4.06	3.72	3.62	3.43
Defence Expenditure	2.43	2.26	2.07	2.07
Major Subsidies	1.47	1.33	1.28	1.17
Transfer to State & UT Governments	0.47	0.85	0.90	0.83
Pensions (Defence+Civil)	0.59	0.57	0.53	0.51
Internal Security	0.34	0.35	0.38	0.30

The expenditure on defence, interest payments, and major subsidies, transfers to States/UTs, pensions, internal security etc., are obligatory in nature and account for about 89 per cent of total non-plan expenditure in 2006-07. Any increase in expenditure in these areas would commensurately increase overall non-plan expenditure. Despite the burden of such obligatory expenditure, the non-plan expenditure as a percentage of the total expenditure has declined from 73 percent in 2004-05 to 70 percent in 2007-08 (BE).

Evaluation of non-plan expenditure is an on-going exercise. Notwithstanding the inherent inflexibility in non-plan expenditure, the Government is committed to achieving moderation in growth of non-plan expenditure. Guidelines on austerity and expenditure management are issued from time to time to supplement the General Financial Rules. The progressively declining non-plan expenditure, as well as improving tax-GDP ratio, reflect the Government's commitment to achieving the FRBM targets.

The FRBM Act enjoins the Government to eliminate the revenue deficit and to reduce fiscal deficit to not more than 3 percent of GDP by 2008-09. Increase in expenditure in the social sectors has implications particularly on Revenue Deficit and is sought to be balanced by containment of non-plan revenue expenditure and by increasing revenue realisation through various measures including *inter-alia*, through improved tax administration, broadening the tax base and periodical revision of exemptions. The Government is sensitive to the challenging task of mobilizing resources to meet the expenditure commitments envisaged in XI Plan, while at the same time adhering to FRBM targets. Such challenges also originate from a virtuous shift in Plan priorities in favour of open ended programmes like National Employment Guarantee Scheme as also Bharat Nirman, Urban Renewal Mission which are in the nature of creating pressure on revenue expenditure though these programmes contain substantial component of expenditure on asset creation. Nevertheless, the increase in expenditure on various schemes for poverty alleviation and social sector development including provision for an upgradation of physical infrastructure, budgeted during 2007-08, is sought to be met while adhering to the FRBM deficit targets for the year 2007-08.

The Cabinet Committee on Economic Affairs, on 29.9.2006, had directed 'all the Ministries/Departments to plan and administer their activities keeping in view the fiscal corrections prescribed in the FRBM Act 2003'. Buoyant economic growth along with the above measures is expected to contribute to the achievement of the budgeted deficit targets.

23. The Committee note that though non-plan expenditure as a percentage of GDP is budgeted to decline by 2.3% in 2007-08 as compared to 2004-05 (from 11.70% in 2004-05 to 9.40% in 2007-08), as a percentage of total expenditure, it is expected to decline by 3 percent. This coupled with the Ministry's own admission that there is inherent inflexibility in reducing the non-plan expenditure, reinforces the Committee's apprehension that the Government may not be able to meet the deficit targets (both fiscal and revenue deficits) as enunciated in the FRBM Act. It is in this context, the Committee had desired the Government to provide them a detailed note on the policy measures required for achieving the FRBM targets in the given time frame. The Government have, however, not furnished the details as to how the FRBM goals are going to be accomplished. The Committee, therefore, reiterate their recommendation and desire that the Government should come out with a detailed note on policy measures by which the FRBM goals are proposed to be achieved.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Inflation

Recommendation (Sl. No. 1, Para Nos. 21, 22 and 23)

The Committee observed that while the Wholesale Price Index (WPI) based inflation rose from 4 per cent in April, 2006 to 6.1 per cent in February, 2007, the inflation level as measured by the Consumer Price Index which peaked to as much as 7.6% in June, 2006, the highest in the last seven years, was placed at 6.7 per cent in January, 2007. Though the inflation rate for primary articles and manufactured products at 9.75 per cent and 5.65 per cent respectively as on 20th January, 2007 was higher than 5.87 per cent and 2.32 per cent recorded in the corresponding week a year ago, the inflation rate for the fuel group decreased from 7.84 per cent to 3.67 per cent in the same period. Rise in prices of wheat, pulses, edible oils, fruits and vegetables, condiments and spices were the major contributory factors towards increasing the inflation rate of primary articles. The variation between the WPI and CPI measured inflation rates is owing to the different weightages and composition of commodities in the baskets of the two price indices. While the food group of items' have been given a weightage of 46.79% in the CPI basket, these items are accorded a weightage of 26.94% in the WPI basket. The CPI measured inflation in the current times being higher vis-a-vis the WPI measures inflation, which is owing to rise in food prices, the Committee cannot help taking note of the fact that the inflationary being witnessed affects the working class, or the lower strata of the society the most.

The measures initiated and pursued by the Government to control inflation include *inter alia* reducing the retail prices of petrol, importing wheat and pulses at zero duty, banning export of wheat, pulses and skimmed milk powder, reducing import duty on palm group of oils and banning futures trading in tur, urad, wheat and rice. Concomitant to address the supply side factors, monetary policy initiatives for regulating liquidity by increasing the Cash Reserve Ratio and Repo Rate have been initiated by the RBI with a view to controlling the inflationary trend and simultaneously facilitating the growth rate of GDP which has been to the extent of 7.5% (provisional estimates) for 2004-05 and 9.0 per cent (quick estimates) for 2005-06. The Committee, in this regard, take note of the fact that in the Economic survey

2006-07 too an apprehension has been expressed that supply-demand imbalances in primary articles and firming of international prices may continue to exert pressure on inflation. It has, therefore been stated that unless supply side constraints, especially in food items are removed, the inflationary pressure would not be tamed fully.

Since the primary factor in generating inflationary pressure is observed to be the increase in prices of food items, the Committee are of the view that the Government's policy direction should be essentially and seriously oriented towards addressing 'supply side' factors on a mid and long term basis. The Committee feel this to be essential despite the initiatives taken by the Government for addressing supply side factors by restoring to imports etc., which can, at best be a short-term or stop gap arrangement for controlling prices. Moreover, rise in prices along with the rise in interest rates affect the common man hard. For the purpose of effectively tackling the inflationary trend, and at the same time maintaining the trajectory of growth, the Committee are of the considered view that the Government should emphasize on proactive steps so that the problem of inflation is tackled effectively. The Committee are of the views that strengthening the public distribution system as an instrument of intervention in the market, withdrawal of other essential commodities too from futures trading and setting up a stabilization fund to address changes in international oil prices are some of the measures required to be taken for controlling inflation.

Reply of the Government

Inflation, which was under pressure in 2006-07, showed some signs of abatement in early 2007-08. Inflation, as measured by the Wholesale Price Index (WPI) of all commodities on a year-on-year basis, had remained above 6 per cent in each of the 12 weeks beginning the week ending January 6, 2007. For the week ending March 31, 2007, inflation got moderated to 5.94 per cent, but increased to 6.44 and 6.09 per cent for each of the two weeks ending April 7 and April 14, 2007. Rate of inflation has declined by 129 basis points in the seven weeks since then and was 4.80 per cent on June 2, 2007. Inflation based on consumer price indices (CPI) in April 2007 varied between 6.67 per cent for Industrial Workers (CPI-IW) and 9.44 per cent for Agricultural Labourers (CPI-AL) on a year-on-year basis. On June 2, 2007, inflation recorded by primary articles at 8.20 per cent was slightly higher than 7.04 per cent recorded a year ago. Primary articles contributed as much as 37.92 per cent to overall inflation. The manufactured product group (with a weight of 63.75 per cent in WPI) recorded year-on-year inflation of 5.13 per cent on June 2, 2007 and contributed 59.15 per cent to overall inflation. Fuel group, year-on-year inflation has decelerated to 733 basis points from June 3, 2007 and their contribution to current inflation was 2.64 per cent which is significantly lower than 35.41 per cent a year ago.

The problem of inflation in 2006-07 started with shortfalls in domestic supply of some agricultural commodities, mainly wheat, pulses, edible oils and hardening of international prices of some essential commodities during this period. Any failure on the supply management front will not only damage inflation perception in people's mind but also build up pressure for upward adjustment of wages and other prices and for fiscal and monetary accommodation of higher overall inflation. Therefore, containment of inflation remains high on the agenda of the Government. Anti-inflationary policies of the Government include strict fiscal and monetary discipline, rationalization of excise and import duties of essential items so that there is no undue burden on the poor, effective supply-demand management of essential commodities through liberal tariff and trade policies, and strengthening the public distribution system. Moderation in rates of inflation in last seven weeks indicates that various policy initiatives taken by Government have started yielding results.

The recent steps taken by Government to control inflation include:

Monetary Measures

- Increasing the cash reserve ratio by 25 basis points each of six occasions so far on December 23, 2006, January 6, 2007, February 17, 2007, March 3, 2007, April 14, 2007 and April 28, 2007 to reach 6.5 per cent as on April 28, 2007.
- Repo rates revised upwards five times in 2006-07 by 25 basis points on each occasion to reach 7.75 per cent on March 30, 2007.
- On March 2, 2007, the Reserve Bank of India announced three further measures to manage liquidity in the system: first, starting March 5, 2007, under the Liquidity Adjustment Facility, to limit daily reverse repo absorption to a maximum of Rs. 3,000 crore each day; second, to issue dated security for Rs. 6,000 crore (nominal) on March 6, 2007 under the Market Stabilisation Scheme (MSS); and third, to auction Treasury Bills for a notified amount of Rs. 2,500 crore on March 7, 2007.

Fiscal Measures

- As against the normal applicable duty of 50 per cent, allowing private trade to import wheat at 5 per cent duty from June 28, 2006, and at zero duty from September 9, 2006.

- Reduction of customs duty on import of pulses to zero on June 8, 2006.
- Reduction in import duty on palm group of oil by 10 percentage points in August 2006 and by a further 10-12.5 percentage points in January 2007. Maintaining the tariff value for assessing import duty unchanged at the July 2006 level.
- In January 2007 customs duty was reduced on portland cement, various metals, machinery items and project imports.
- Reducing peak rate of basic customs duty for non-agricultural products from 12.5 per cent to 10 per cent in Budget 2007-08;
- Reducing basic customs duty on selected raw materials, intermediate and capital goods to 5-7.5 per cent in Budget 2007-08;
- Removal of additional customs or countervailing duty of 4 per cent on edible oils in Budget 2007-08;
- Reducing basic customs duty on sunflower oil by 10 percentage points in January 2007 and by a further 15 percentage points in Budget 2007-08;
- Reducing excise duty on petrol and diesel, umbrellas and footwear, and on cement up to Rs. 190 per bag in Budget 2007-08;
- Exempting biscuits up to Rs. 100 per kg. and food mixes from excise duty in the Finance Act of 2007-08.
- Basic customs duty on palm group of oils was further reduced by 10 percentage points in April 2007.

Measures for augmenting domestic availability

- STC contracted for import of 55 lakh tonnes of wheat to supplement domestic availability.
- Decision to release up to 4 lakh tonnes of wheat under the Open Market Sale Scheme in February and March 2007.
- Ban on export of pulses with effect from June 22, 2006; wheat and skimmed milk powder from February 9, 2007.

- At the initiative of the Government, National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED) executed a contract for import of 49,300 tonnes of pulses, of which entire quantity was received during July-October 2006. To increase availability of pulses, NAFED executed a new contract in December 2006 for import of 30,000 tonnes of pulses. In 2007-08, public sector agencies are expected to import an additional 1.5 million tonnes of pulses.
- For a sustained improvement in agriculture production and productivity, Budget 2007-08 has proposed measures to increase irrigation, availability of improved seeds, institutional credit and fertilizers and measures to accelerate the adoption of new technologies through a revamped training and visit system.

Administrative measures

- Reduction in the retail prices of petrol by Rs. 2 per litre and diesel by Rs. 1 per litre first in November 2006 and again in February 2007.
- Suspension of futures trading in tur and urad from January 24, 2007 and in wheat and rice from February 28, 2007.
- Extending up to August 28, 2007, the order enabling the State Governments to prescribe stock limits, etc., in respect of wheat and pulses under the Essential Commodities Act.
- Constitution of an Expert Committee under the chairmanship of Prof. Abhijit Sen, Member, Planning Commission, to look into all the issues relating to futures trading.
- Strengthening the monitoring mechanism of the public distribution system.

[Ministry of Finance (Department of Economic Affairs), F. No. 3 (23)/EC.Dn./2007, dated 26/6/2007]

Lending of Weaker Sections by Commercial Banks

Recommendation (Sl. No. 4, Para Nos. 58 & 59)

Though scheduled commercial banks are requested to extend a minimum of 10 per cent of the Net Banking Credit to the weaker sections as a part of the overall target of extending 40 percent of the credit to priority sector, the data for the last four years shows that the actual lending has been much lower, both in the case of public sector and private sector banks. While the public sector banks extended 7.67 and 7.70 percent of the Net Banking Credit to the weaker sections in 2004-05 and 2005-06, such lending extended by the private sector banks was as low as 1.2 percent and 1.7 percent during the years. The principal reasons cited for non-compliance of the lending targets for the weaker sections include, *inter alia*, delay in submission of forms by sponsoring agencies, lack of awareness of guidelines of schemes among officials of both sponsoring and banks, poor sponsoring of applications, poor recovery and defaults by borrowers.

The Committee is surprised at the satisfaction being derived by the Government that the lending to the weaker sections of society has been steadily increasing in absolute terms since 2002-03. Government should not lose sight of the fact that the lending to this section in terms of percentage of net bank credit has no where been near the stipulated 10 percent. The Committee, therefore, recommend that the Government/RBI should take appropriate steps for increasing awareness and enabling effective coordination between banks and sponsoring agencies so that timely credit is made available to the borrowers. The banks also need to be impressed upon to promote awareness among the weaker sections about the availability of credit. The Committee would also like to be apprised of the details of the interest charged on the loan-schemes to the poor sections as well as the data on recoveries of such loans.

Reply of the Government

Financial Inclusion of the Weaker Sections

The policies relating to the rural credit are reviewed by Reserve Bank of India (RBI) from time to time to bring about maximum financial inclusion of the weaker sections of the society so as to bridge the gap in achieving a minimum target of 10% NBC to the weaker sections. Besides, constituting various Working Groups to address the issues related to farmers in distress, simplication of procedures for obtaining agricultural loans, and formulating guidelines on one-time settlement for small and marginal farmers, the RBI has revised the guidelines on priority sector lending with effect from April 30, 2007 wherein only those sectors were included as part of the priority sector, that impact large sections of the population, the weaker sections and the sectors which are employment intensive such as agriculture, and tiny and small enterprises.

RBI has taken concerted initiatives to provide smooth and efficient banking services to the general public at large. With a view to enhancing the access of the common man to basic banking facilities, RBI has launched a project called 'Financial inclusion' for delivery of banking services at an affordable cost of the vast sections of disadvantaged and low-income groups. Towards achieving this end, SLBC convenor banks of the States/and Union Territories have been advised to identify districts for launching the Financial Inclusion project, introducing a basic banking 'no frills' accounts with minimum documentation and general credit card.

Rate of Interest for the poor sections and recoveries of loans

In order to make the financially-excluded as also the existing customers of banks aware of the various financial products and services available in the market/offered by the banks and to make the former to understand the benefits and the ways to join the formal financial system, RBI has embarked upon the project of Financial Education. A Steering Group on Reaching Out to the Common Man has already been constituted in the RBI for launching the financial education programme.

With a view to provide timely credit under various Government Sponsored Schemes, RBI has taken the following steps:

(a) carried out studies on various Government Sponsored Schemes, the findings of which have been brought to the notice of the banks and Government for ensuring successful implementation of the schemes.

(b) advised all the scheduled commercial banks to circulate the instructions issued by RBI in the local languages and also give due publicity of benefits extendable to SCs/STs under different Government sponsored Schemes.

(c) advised the banks to help the poor illiterate borrowers in filling up the forms and completing other formalities so that they are able to get credit facility within a stipulated period from the date of receipt of applications.

(d) advised the banks to contact illiterate borrowers and explain to them the salient features of the schemes as also the advantages that will accrue so as to minimize the rate of rejection of applications.

(e) advised the banks to enhance the credit flow to SCs/STs as recommended by the Parliamentary Committee on the Welfare of SCs/STs.

As regards the rates of interest charged on various priority sector advances, loans upto Rs. 2 lakhs carry the prescription of not exceeding the Prime Lending Rate (PLR) while on the loans above Rs. 2 lakhs, banks are free to determine the rate of interest. Thus, the interest rates on advances have been partly deregulated.

As such, it is left to the individual banks to fix their own interest rates for the loans and advances under Swarnjayanti Gram Swarozgar Yojana (SGSY), Swarna Jayanti Shahari Rozgar Yojana (SJSRY), Prime Minister's Rozgar Yojana (PMRY) and Scheme for Liberation and Rehabilitation of Scavengers (SLRS) within the broad guidelines issued by RBI. Nevertheless, banks were advised to link the rates of interest to be charged on Group loans under SGSY scheme, to per capita size of the loans so as to mitigate the burden on the BPL beneficiaries on the analogy of IRDP group loans.

Under Differential Rates of Interest (DRI) Scheme, banks are required to provide finance at a concessional rate of interest of 4% p.a. to the weaker sections of the community for engaging in productive and gainful activities so that they could improve their economic conditions.

The data on the recovery position of banks under Government Sponsored Schemes (SGSY, SJSRY, PMRY & SLRS) for the years 2003-04, 2004-05 and 2005-06 is given below:

Recovery Position of Banks under Swarnjayanti Gram Swarozgar Yojana

(Amt. Rs. in Lakhs)

Year	Demand		Recovery		Overdues		%	
	Ind	SHG	Ind	SHG	Ind	SHG	Ind	SHG
2003-04	77078.42	29645.80	32408.85	17253.74	44669.57	12392.06	42.05	58.20
2004-05	82116.44	42847.70	33010.70	28143.88	49105.74	14704.19	40.20	65.68
2005-06	114347.32	62270.42	46815.56	40042.67	67531.76	22227.56	40.94	64.30

Ind—Individual

SHG-Self Help Group: Data as reported by scheduled commercial banks

Recovery Position of Banks under Swarna Jayanti Shahari Rozgar Yojana

(Amt. Rs. in lakhs)

Year	Demand	Recovery	Outstanding	%
2003-04	36370.64	14015.80	22354.84	38.54
2004-05	36095.65	16012.30	20083.35	44.36
2005-06	39274.32	17601.39	21672.93	44.82

Data as reported by scheduled commercial banks.

Recovery Position of Banks under Prime Minister's Rojgar Yojana

(Amt. Rs. in lakhs)

Years	Demand	Recovery	Overdues	%
2003-04	270449.70	94542.81	175906.89	34.96
2004-05	290923.23	102957.83	187965.40	35.39
2005-06	296575.41	104560.39	192015.02	35.26

Data as reported by scheduled commercial banks.

Recovery Position of Banks under Scheme for Liberation of Scavengers

(Amt. Rs. in lakhs)

Year	Demand	Recovery	Overdues	%
2003-04	5105.89	1849.16	3256.73	36.22
2004-05	6064.09	1928.23	4135.86	31.80
2005-06	5922.85	1997.65	3925.20	33.73

Data as reported by scheduled commercial banks.

[Ministry of Finance (Department of Financial Services) F. No. 1/10/P/BKG/2007, dated 18.7.2007]

Customer service in banking sector

Recommendation (Sl. No. 6, Para Nos. 87, 88 & 89)

The Committee were dismayed to note that between July 2005 and June 2006, the Reserve Bank of India received 5772 complaints against public sector banks. The total number of complaints against private sector banks was 1492 where as in the case of foreign banks it was 879. They find that whereas the number of complaints received through Banking Division decreased consecutively during the last three years *i.e.,* 2004, 2005 and 2006, the number of complaints directly received by banks increased sharply during the same period. Out of the total complaints, maximum number of complaints have been registered against credit card related services of the banks. They note with utmost concern the fact that the RBI has received representations from the public about the unreasonable and non-transparent service charges/hidden charges being levied by banks, especially with respect to non-maintenance of minimum balances in account, delayed payment on credit card dues, remittance charges, ATM/Debit Card fees etc.

The Committee find that the RBI has created a separate Customer Service Department in July 2006 to give focused attention to customer service in banks. The Banking Ombudsman Scheme has been revised with effect form January 1, 2006 to include additional complaints. RBI has also issued guidelines on credit card operations in 21st November 2005. In order to ensure fair practices in banking services, RBI in its Annual Policy Statement for the year 2006-2007 proposed to make display and updation of details of various service charges obligatory for the banks. It has also proposed to constitute a Working Group comprising of Indian Banks' Association (IBA) and representatives of customers to formulate a scheme for ensuring reasonableness of bank charges and to incorporate the same in the Fair Practices Code, the compliance of which would be monitored by the Banking Code and Standards of Board of India (BCSBI). They also find that based on the recommendations of the Working Group, guidelines on credit card operations of banks have been issued in the form of a Master Circular on credit card operations on July 1, 2006.

Though the measures taken by RBI are a step towards right direction, a lot depends on the implementation. The Committee are of the view that RBI should play a more proactive role in reducing the incidence of customer grievances in the first instance. In view of the largest number of complaints being in respect of credit card services, RBI should have a study conducted of these services in particular with a view to identify and plug the lacunae in these services. The RBI should also institute a monitoring mechanism to see that all the guidelines issued are scrupulously observed by individual banks. There should be a penal provision against banks for taking negligent attitude towards customer grievances. The number of complaints should be gradually reduced by taking appropriate measures to improve the particular service of banks. The Committee would also like to be apprised in this regard within next three months.

Reply of the Government

RBI has reported that it has already issued detailed guidelines on credit card operations of banks *vide* Circular dated November 21, 2005 as updated by Master Circular dated July 1, 2006. These guidelines cover various aspects like Fair Practices Code, Issue of Cards, Interest rates and other charges, Wrongful billing, Use of DSAs/DMAs and other agents, protection of customer rights, redressal of grievances, internal control and monitoring systems, fraud control and right to impose penalty.

The Banking Ombudsmen have also been taking up individual complaints received from customers regarding various credit card related issues with the banks concerned with a view to redress the grievances of customers. Further, even during the meetings held by RBI with the CMDs/MDs/CEOs of banks for discussing their Annual Branch Expansion plans, a lot of emphasis is given in discussing issues related to customer service including the display of their Service Charges and fees on their website, making available a Complaints Form on their website itself, speedy disposal of complaints received directly by the banks or those received through Banking Ombudsmen, efforts taken by the bank to provide 'no-frills accounts' and efforts taken by the bank in respect of financial inclusion aspects etc.

As regards unreasonable and non-transparent service charges/ hidden charges being levied by banks especially with respect to non-maintenance of minimum balances in account, delayed payment on credit card dues, remittance charges, ATM/Debit Card fees etc., it is submitted that in terms of RBI circular dated September 7, 1999 on 'levy of services charges by commercial banks' (copy enclosed), banks have been given the freedom to fix service charges for various types of services with the approval of their Board. However, banks have been advised that while fixing service charges, they should ensure that the charges are reasonable and not out of line with the average cost of providing these services. In order to ensure transparency, banks are required to display and update on their websites the details of various service charges in a prescribed format.

Further, based on the recommendations of the "Working Group to formulate a scheme for ensuring reasonableness of bank charges", RBI has issued necessary instructions *vide* circular dated February 2, 2007 (copy enclosed) advising banks to identify basic banking services and the principles to be adopted/followed by them for ensuring reasonableness in pricing and communicating the service charges for the basic banking services.

In addition, RBI has also issued a circular dated May 7, 2007 regarding excessive interest charged by banks. The circular was issued in the context of Reserve Bank and Banking Ombudsmen offices receiving several complaints regarding levying of excessive interest and charges on certain loans and advances. In the circular, the reference of banks was invited to RBI's Master circular dated July 1, 2006 advising them to have an objective and transparent policy approved by their Boards for the purpose of fixing interest rates on loans and advances.

Banks were advised that though interest rates have been deregulated, rates of interest beyond a certain level may be seen to be usurious and can neither be sustainable nor be conforming to normal banking practice. Boards of banks were, therefore, advised to lay out appropriate international principles and procedures so that usurious interest, including processing and other charges, are not levied by them on loans and advances. In laying down such principles and procedures in respect of small value loans, particularly, personal loans and such other loans of similar nature, banks may take into account, *inter-alia*, the following broad guidelines:

- An appropriate prior-approval process should be prescribed for sanctioning such loans, which should take into account, among others, the cash flows of the prospective borrower.
- Interest rates charged by banks, *inter-alia*, should in corporate risk premium as considered reasonable and justified having regard to the internal rating of the borrower. Further, in considering the question of risk, the presence or absence of security and the value thereof should be taken into account.
- The total cost to the borrower, including interest and all other charges levied on a loan, should be justifiable having regard to the total cost incurred by the bank by extending the loan, which is sought to be defrayed and the extent of

return that could be reasonably expected from the transaction.

- An appropriate ceiling may be fixed on the interest, including processing and other charges that could be levied on such loans, which may be suitably publicized.

RBI has reported that as noted by the Committee, RBI has been initiating a number of steps to improve customer service while simultaneously setting up adequate institutional infrastructure for complaints' and grievance redressal in the banking system. As already mentioned against recommendation number 88 above, based on the recommendations of the "Working Group to formulate a scheme for ensuring reasonableness of bank charges", RBI has issued detailed guidelines to banks *vide* circular dated February 2, 2007 advising banks to identify basic banking services and the principles to be adopted/followed by them for ensuring reasonableness in pricing and communicating the service charges for the basic banking services.

In particular, banks were advised to take action as under in terms of the above circular;

(i) to identify the basic banking services on the basis of the broad parameters indicated by the Working Group.

(ii) to make available the basic banking services at reasonable prices/charges and towards this, delivering the basic services outside the scope of the bundled products.

(iii) to adopt/follow the principles for ensuring reasonableness in fixing and communicating the service charges as enunciated by the Working Group.

(iv) To take steps to ensure that customers are made aware of the service charges upfront and changes in the service charges are implemented only with the prior notice to the customers.

(v) To implement the recommendations of the Working Group relating to redressal of grievances and financial education.

RBI has reported that it has set up a separate Customer Service Department in July 2006 to bring all customer service aspects handled by the Reserve Bank under a single roof.

RBI's Customer Service Department is in the process of undertaking a study conducted on the credit card services provided by banks. As regards the monitoring mechanism to see that the various guidelines relating to credit cards/service charges are implemented by banks, during the course of the Annual Financial Inspection of banks, RBI's Department of Banking supervision also looks into various aspects including the implementation of the various RBI guidelines. The Customer Service Department also takes up the matter with banks based on various complaints received by it with a view to redressing the same. Penal provisions against banks for non-implementation of the various guidelines, already exist. For instance, in the Master Circular on Credit Card guidelines, it has been clearly indicated in paragraph 11 of the circular that RBI reserves the right to impose penalty on a bank under the provisions of the Banking Regulation Act, 1949 for violation of any of the said guidelines.

Similarly, in other cases also, where the banks do not implement the guidelines issued by RBI on various aspects, RBI has the right to impose penalty on banks for violation of the guidelines.

As may be seen from the above, Reserve Bank of India has already taken necessary action regarding issue like unreasonable and non-transparent service charges/hidden charges levied by banks especially those relating to non-maintenance of minimum balance in accounts, delayed payment on credit card dues, remittance charges, ATM/Debit Card fees, excessive rates of interest charged on certain category of loans etc.

[Ministry of Finance (Department of Financial Services) F.No. 1/10/ P/BKG/2007, dated 18.7.2007]

SEBI-Investor Protection Fund

Recommendation (Sl. No. 7, Para Nos. 96, 97 & 98)

The Committee are concerned to note that Investor Protection Fund under the aegis of SEBI was proposed to be created as far back as Budget 2006-07 but the proposed fund has not been created so far. The proposed fund was to be created with the sums collected by SEBI by way of fines and penalties. At present these proceeds are credited to the Consolidated Fund of India as required under the Securities Law. They further observe that for creation of Investor Protection Fund, SEBI Act needs to be amended so that all proceeds collected by way of penalities, settlement of proceedings and compounding of offences under the SEBI Act, the Securities Contract (Regulation) Act and the Depositories Act could be credited to the Investor Protection Fund.

The Committee also notice that an Expert Group was set up under Shri G.N. Bajpai to suggest measures for protection of interests of small investors and new avenues for safe investment of their savings. The expert Group has suggested for creation of a Centralized Investor education effort with adequate funding.

The Committee therefore recommend that the Government should bring the legislative amendments required to create a centralized investor protection fund with SEBI without further delay. The Committee also desire that the issue of adequacy of funds to enable SEBI to undertake the investor protection and education activities in a big way should be addressed by the Government. The Committee, therefore, reiterate the need to impress on the Government to ensure that adequate capital is available in the proposed fund so that SEBI is not in any way incapacitated in undertaking investor protection activities. They further recommend that the fund should not be utilized for merely compensating the investors who suffer loss due to violation of security laws but also be utilized to educate the small investors as suggested by the Expert Group which would enable them in taking wise investment related decisions.

Reply of the Government

The Government has initiated the process of amendments to the SEBI Act for the purpose, *inter-alia*, of creation of an Investor Protection Fund under the aegis of SEBI. A draft Cabinet Note proposing the amendments has been circulated to various Ministries/Departments for their comments. Consultations with Ministry of Law and Justice are under progress to finalize the proposals in the Cabinet Note.

The Government has decided to create an institutional mechanism through a sub-committee of Investor Education and Protection Fund of the Ministry of Corporate Affairs (MCA) comprising of the nominees of each segment of the financial markets, which could coordinate the efforts and activities undertaken by various agencies for investor education and awareness. This sub-committee is in the process of being constituted and operationalised by the MCA.

Creation of the Investor Protection of Fund under the aegis of SEBI would require amendments to the SEBI Act, 1992. A draft Cabinet Note seeking amendments to the SEBI Act for, *inter-alia*, this purpose has been prepared and sent to various Ministries/Departments for comments. Consultations with Ministry of Law and Justice are under progress to finalize the proposals in the Cabinet Note.

It is proposed that all sums realized by way of monetary penalty, disgorgement, settlement of proceedings and compounding under the securities laws, shall be credited to this fund, which shall ensure adequate capital for the proposed Fund.

The suggestion of the Committee regarding utilization of the proposed fund shall be acted upon when the rules for the same are drafted by the SEBI.

[Ministry of Finance Department of Economic Affairs O.M. No. 5/2/PM/2007, dated 21 June, 2007]

Demand No. 32—Information Technology—Other Charges

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

It is seen that there has been wide variation between the budgetary estimates, revised estimates and actual expenditure under the head, 'Information Technology—other charges' since the year 2004-05. The Committee are dismayed over the fact that despite incurring an expenditure of only Rs. 2,28,78,000 in 2004-05, and proposing an allocation of Rs. 5,95,00,000 under the head at the stage of BE in 2005-06, the amount was increased substantially at the RE stage during the year but it could not be utilized due to procedural delays in finalization of tenders. Consequently, huge amounts had to be surrendered at the end of the year, 2005-06. What the Committee find to be even more surprising is that the same exercise was repeated in the following year 2006-07, where the total expenditure was only Rs. 6,84,40,000 as against the revised allocation of Rs. 11,00,00,000 which resulted in savings of around Rs. 5,00,00,000.

The Committee deprecate such a casual approach towards budgetary exercise and that too by a Ministry dealing in finances of the country as it is indicative of their inability to make realistic projections. The Committee would urge that the budgetary projections by the Ministry should be made more realistically in future. They are also unable to comprehend the reasons for the delay in implementing the IT Plan for which the allocations are meant which had the consequent effect of delaying the modernization of Department of Economic Affairs, Expenditure and Revenue. The Committee, therefore, recommend that the Government should avoid procedural delays and should try to utilize the allocated funds in time.

Reply of the Government

Provision at RE 2006-07 stage was proposed based on the tentative cost of each hardware and software item supposed to be procured under the IT Plan during 2006-07. The savings occurred due to variations in the actual/negotiated cost of each hardware/software item.

The recommendation of the Committee *i.e.* making the budgetary projections by the Ministry more realistic in future, avoiding procedural delays in implementing project and trying to utilize the allocated funds in time have been noted and the Ministry will make every effort to comply with them.

[Ministry of Finance (Department of Economic Affairs) O.M. No. 1/2/2007-IT & IIC dated 17.7.2007]

Demand No. 32—Minor-Works (Maintenance)

Recommendation (Sl. No. 9, Para Nos. 110 & 111)

The Committee observe that the expenditure under the head "Secretariat—Minor Works" is meant for maintenance of Air Conditioning system, Generator and Machinery and their parts. They find from the information furnished by the Ministry that the actual expenditure on this count has been shown to be much lower than the budgetary allocations as a sum of Rs. 19,68,265 spent for maintenance of Air conditioning system and Generator of the Budget Press and Administration Section was misclassified and shown under some other head of account. They further find that budgetary provisions have been increased substantially in the year 2007-08 to meet additional anticipated expenditure on repair/renovation/maintenance of the office premises and the allocation for the head, "Office Expenses" reduced simultaneously.

The Committee are perturbed to note that the actual expenditure "Secretariat—Minor Works" has not been recorded under the current head of account and adjustment have been made under the head, "Office Expenses" during the current year. The Committee emphasize on the need for ensuring that the allocation and expenditure are shown correctly, as otherwise, it would result in arriving at misleading conclusions.

Reply of the Government

Observations of the Committee have been noted for compliance.

[Ministry of Finance (Department of Economic Affairs) F.No. 33011/22/2006-Admin. IV, dated 26.7.2007]

Demand No. 38—Publication

Recommendation (Sl. No. 11, Para nos. 137 & 138)

The Committee observed that the actual expenditure under this head has been short of the estimates during 2005-06 and 2006-07 by almost the same margin. The main reason for the variation between the BE allocation and actuals in 2005-06 put forth by the Ministry, is the lesser than anticipated receipt of bills from the Government of India Press etc.

The Committee are not satisfied with the reply of the Government with regard to variation between the BE and Actuals in 2005-06. In the opinion of the Committee, application of rationality in preparing the estimates by the Government would have avoided the gross mismatch between Budget estimates and the actual expenditure. The Committee also feel pertinent to mention here that the similarity in the amount of shortfall in "Actuals" as compared to the estimates under this head in 2005-06 and 2006-07, is indicative of the Government's casual approach towards budget allocations. The Committee are also surprised at the justification given by Government on proposing an allocation of Rs. 22,00,000 under this Head for 2007-2008, on the basis of the "current trend" of expenditure as the actual expenditure under this Head for the last three years has been to the extent of Rs. 16,90,000 in 2004-05, Rs. 13,58,000 in 2005-06 and Rs. 13,72,000 in 2006-07. The Committee, therefore, would like to urge the Government to apply fiscal prudence and discipline when making allocations under this Head so as to eliminate the mismatch between the BEs and the Actuals in future.

Reply of the Government

The observation of the Committee has been noted. Observations of the Committee have been noted for compliance. Accordingly, allocations under this head shall be reviewed with reference to the actual expenditure at RE stage.

[Ministry of Finance (Department of Expenditure) F.No. G-20018/7/07-IFU dated 21/6/2007]

CHAPTER III

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

Agriculture Credit

Recommendation (Sl. No. 2, Para Nos. 38, 39, 40 & 41)

The Committee observe that, in pursuance of the Budget announcement of 2006-07, the Government has been providing interest subvention of 2 percent for enabling banks to extend short term crop loans to farmers at 7 per cent rate of interest with an upper limit of Rs. 3 lakh on the loan amount. The interest subvention of 2 percent is made available to public sector banks, Regional Rural Banks and cooperative banks on the lending from their own resources; and Cooperative Banks and RRBs are refinanced at concessional rate on their borrowing from NABARD.

Though the interest subvention scheme to the extent of 2 percent has been formulated to enable short-term production credit to farmers at 7 percent interest rate, the Committee find this not to be adequate vis-a-vis the requirements of the farming community. For instance, the National Commission for Farmers headed by Dr. M.S. Swaminathan had recommended for reducing the interest rate on crop loans *i.e.* short-term loans to 4 per cent. The representatives of the Ministry of Finance had, on the issue of extending cheaper short-term credit to the farming community, contended that the rate of interest applicable to the agricultural sector could not be looked into in isolation *vis-a-vis* other sectors such as micro-finance, where credit at higher interest rates was being effectively absorbed. The Committee are, however, not inclined to agree to this viewpoint, as agriculture has long remained starved of funds, which has the negative effect of incapacitating farmers in continuing with agricultural operations profitably. The Committee, therefore, desire that the suggestions of the National Commission on Farmers, which include, inter alia, reducing the rate of interest on crop loans are acted upon so as to enable the farmers to access institutional credit on large scale.

The Committee further observe that long term loans for agriculture purposes are provided as investment credit for farm mechanization, irrigation, equipment loans etc., and the rate of interest on such loans range between 10 percent to 14 percent per annum, which in their view is unviable. As long terms loan at high range of interest can deter farmers to go in for mechanization and technology infusion in a big way, the Committee recommend the Government/RBI to initiate steps to further reduce the rate of interest on long term agricultural loans so as to make it an affordable proposition for farmers.

The Committee note from the information furnished that banks as a whole have been able to achieve the targets set out under the 'package for doubling of credit flow to agriculture' during 2005-06. From the information made available, the Committee, however, cannot also, help noting that of the 27 public sector banks, only 10 banks could achieve the targeted level of extending 18% of the net bank credit to the agriculture sector. The shortfalls in meeting the agriculture lending targets is also reflected in the growing accruals to the RIDF on account of the compensatory deposits made by banks. The growing accruals to the RIDF is also indicative of the fact that the penal rate of interest payable on RIDF deposits has not served as an effective deterrent on banks from shying away from lending to the agricultural sector. The Committee, therefore, emphasise that the Government should make concerted efforts in impressing on banks to increase the agricultural credit disbursement. The Committee also express the need for ensuring that the yearly targets for agricultural lending are so designed that the banks are able to fulfill the obligation of achieving the target of extending 18 percent credit to the agriculture sector at the earliest. RBI should strictly monitor the performance of the banks in this regard.

Reply of the Government

Consequent upon the Budget announcement for the year 2006-07 the Government has decided to ensure that the farmers receive short term crop loans at 7% with an upper limit of Rs. 3 lakh on the principal amount *w.e.f.* kharif 2006-07. Accordingly, instructions have been issued to all banks. The scheme of providing short term production loans to farmers at 7% with an upper limit of Rs. 3.00 lakh on the principal amount has been extended for the year 2007-08 as well.

Banks fix the rates of interest taking into account their cost of fund, transaction cost and risk. With the deregulation of interest rates by the Reserve Bank of India (RBI), Banks are free to fix the rate of interest on loans above Rs. 2 lakh provided by them to farmers. However, interest rates for loans up to Rs. 2 lakh should not exceed the Benchmark Prime Lending Rate (BPLR) in order to benefit small borrowers including small and marginal farmers.

Banks have been providing crop loans to the farmers @7% with an upper limit of Rs. 3 lakh on the principal amount *w.e.f.* Kharif 2006-07. This has happened on account of the interest subvention provided by the Government to Public Sector Banks, Cooperative Banks and Regional Rural Banks (RRBs) on the involvement of their own funds and concessional refinance to RRBs and Cooperative banks through NABARD.

The burden of Government of India on account of this subvention for the current year itself is more than Rs. 2000 crores.

The loans provided for investment purposes such as farm mechanization, equipments etc. are for longer periods and are related to the size of the project. The rates of interest charged on such investment loans are related to cost of borrowings, transaction and risk cost of the lending bank. Any reduction in the rate of interest for such purposes as in the case of crop loans may not be financially viable for the lending banks. Bank are taking steps to reduce their transaction costs through better use of information Technology, Banking Correspondents/Business Facilities models, etc. Risk premium can come down by introduction of appropriate insurance products, positive credit information from credit bureaus, better market facilities, proposed credit guarantee scheme for the distressed farmers, etc. With these measures, the rates of interest are likely to come down.

An internal Working Group set up in the Reserve Bank reviewed the existing policy on priority sector lending including the segments constituting the priority sector, targets and sub-targets, etc. Based on its recommendations and the feedback thereon, the revised guidelines on priority sector lending have been issued effective from April 30, 2007.

According to the said revised guidelines banks are required to lend 40 per cent and 18 per cent of Adjusted Net Bank Credit (ANBC) or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher, to priority sector and agricultural sector respectively. As per the new method of computation, the ANBC will be computed with reference to the outstanding advances as on March 31 of the previous year. This would facilitate banks to have a clear-cut base for computation of targets as compared to the previous method of computation of targets, which was on an on-going basis and more difficult to monitor. Under the new dispensation, banks can devise a strategy for achieving the targets set for lending to priority sector/ agriculture. As matter of fact, credit to agriculture has grown from Rs. 86,981 crore in 2003-04 to Rs. 2,03,746 crore during 2006-07 *i.e.* growth rate of 134% in 3 years.

[Ministry of Finance (Department of Financial Services) F.No. 1/10/ P/BKG/2007, dated 18/7/2007]

Demand No. 44—Inter Account Transfer

Recommendation (Sl. No. 13, Para No. 156)

It is a matter of deep concern to the Committee that a huge amount of money has been allocated under the Head 'Inter Account Transfer' in 2006-07, whereas the actual expenditure under the head was 'nil' at the close of the previous financial year. The Committee are further constrained to note that though no allocation has been shown under this Head in the Detailed Demand for Grants (2007-08) of Ministry of Finance, the Government, in a written reply stated that Rs. 1651 crore has been assumed in BE 2007-08 as 'disinvestment' proceeds. It appears to the Committee that the Government is proposing allocations randomly without proper and objective estimation. The Committee, therefore, reiterate the need for ensuring that the budgetary exercise is undertaken/allocations proposed on the basis of proper parameters so as to avoid gross miscalculations.

Reply of the Government

The Budget Estimates of Rs. 3840 crore in the Capital Section under Head No. 5467 *viz*. Capital Outlay on National Investment Fund for 2006-07, was based on the estimated realization from the approved proposals of disinvestment of small portions of equity in National Mineral Development Corporation Ltd. (NDMC) and Power Finance Corporation Ltd. (PFC). The proposal for sale of 5% of the pre-issue paid-up equity capital of PFC, out of Government's shareholding, along with a Fresh Issue of 10% of the pre-issue paid-up capital, through an Initial Public Offering (IPO) was approved by the Government on 22nd December, 2005. The proposal for Offer for Sale of 15% of the pre-issue paid-up equity capital of NDMC, was approved by the Government on 12th January, 2006. The estimated realization in the case of NDMC was worked out on the basis of two weeks' average price ended on 10th February, 2006. For PFC, which is an unlisted CPSE, the estimated realization was based on book value as on 31st March, 2005. Subsequently, on 6th July, 2006, Government decided to keep all disinvestment proposals and decisions on hold, pending further review. Thereafter, in February, 2007 PFC got listed through an IPO consisting of a Fresh Issue of equity only. Since no disinvestment of Government equity has taken place in PFC and NDMC, there was no receipt or corresponding expenditure under this Head.

In 2007-08, three power companies *viz*. Rural Electrification Corporation Ltd., Power Grid Corporation of India Ltd. and National Hydro-electric Power Corporation propose to make public offering of equity equal to 10% each of their pre-issue paid-up equity capital. On 8th February 2007, Government decided to piggyback with an 'offer for sale' of 10%, 5% and 5% respectively out of its share holding. The realization from sale of Government equity in these three power companies has been estimated at Rs. 1651 crore based on book value as on 31st March, 2006. A provision of Rs. 1651 crore has accordingly been made in Demand No. 44 of Department of Disinvestment in the Capital Section under Head No. 5467 viz. Capital Outlay on National Investment Fund.

[Ministry of Finance (Department of Disinvestment) O.M. No. 3/10/2007/DD-II, dated 16th July, 2007]

CHAPTER IV

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

Computerisation and implementation of core banking solutions in public sector banks

Recommendation (Sl. No. 3, Para Nos. 21, 22 & 23)

The Committee note that despite incurring an expenditure of Rs. 10,676 crore from September, 1999 to March, 2006 on computerization and development of communication network of public sector banks, only 10 of the 27 public sector banks are fully computerized as on date. Twelve of the public sector banks presently have more than 50 percent fully computerized branches, while in the case of rest of the five banks, less than 50 per cent branches have been fully computerised.

On the specific issue of implementing Core Banking Solutions (CBS), which provided a host of benefits such as 'anywhere banking', the Committee note from the information furnished that the public sector banks initiated the implementation of CBS in the year 2004-05 and it will take another four years to complete the process. As on March 31, 2006, 28.9 per cent of branches of public sector banks were providing CBS.

The Committee are concerned to find that the public sector banks have lagged behind their private and foreign counterparts in implementing modern technology despite incurring a huge expenditure of Rs. 10,676 crore in the preceding few years. Since the process of implementing CBS was initiated by the public sector banks as late as in 2004-05, one would have expected them to pick up pace in this regard in order to catch up with the private sector and foreign banks. However, the Committee are perturbed to note that this has not happened. The reasons advanced for the slow and tardy progress of implementation of the modernization plans by public sector banks, as informed, include *inter-alia* problems relating to acquisition of hardware, software and networking equipments, non availability of service providers and skilled manpower, as well as 'legacy issues' of branches/ offices working on different technological platforms. The Committee are utterly displeased to note tardy progress so far made by the public sector banks towards modernization. They, therefore recommend that appropriate measure be taken for implementation of modern technology in public sector banks at a faster pace. The Committee also express the need on the part of RBI to impress upon the banks to complete the transformation towards CBS at the earliest. The Government/RBI must provide assistance to the banks in addressing problems relating to computer hardware and software, networking equipments, skilled manpower, etc., which are said to be hindering the progress of modernization of the public sector banking practices and processes.

Reply of the Government

- The amount indicated reflects a 7 year period from 1999 to 2006.
- Computerisation in the first part of the period was based on the CVC directive to computerise all business of the PSBs.
- The approach at that time was to computerise bank business but now the objective is to computerise bank operations at branches.
- The real thrust towards implementation of Core Banking Solutions (CBS) has been taking place from the year 2004-05 onwards.
- Some of the amounts spent by banks may not be on CBS *per se* but for computerisation, networks etc. as well.

Implementation of CBS requires many aspects to be taken care of, such as the provision of central servers, reliable networks, Business Continuity systems to take care of Disaster Recovery Management, Process Re-engineering etc. Further, implementation of CBS at each branch takes some time and hence the time line indicated.

- The comparison between the PSBs and private (new private sector) may not be a justifiable one since the RBI has been insisting that new private sector banks shall commence operations only on a fully technology base which is not the case for the PSBs. As far as old private sector banks are concerned, they are at various stages of implementation of CBS. Foreign banks are part of the global approach followed by their respective head offices; foreign banks do have an edge over Indian banks in terms of IT implementation since they have had an early start while Indian banks had to grapple with issues relating to manpower, unions, change in attitudinal aspects, average age of the employees etc., before the large scale implementation of IT based systems could commence.

- The problems indicated are true.
- As far as CBS systems are concerned, there are only a few reliable solution providers and the choice of range available is not very large.
- Legacy issues continue to be a challenge which PSBs are faced with.
- Implementation of systems such as the CBS across branches is generally a decision taken by the management of banks keeping in focus the benefits accruing out of the IT based implementation and the local customer preferences. This has resulted in banks focusing CBS implementation at large, metro and urban branches in the initial phase. The other branches are now being covered by banks in a phased manner.
- As far as the role of the RBI is concerned, RBI does not provide any prescriptive details to banks; banks are free to implement systems which meet the overall parameters. Nevertheless, in respect of CBS, the RBI does monitor this in a broad manner and this is a matter for discussion during the periodical review meetings with the in-charges of the IT Departments of banks held by the RBI.

[Ministry of Finance (Department of Financial Services) F.No. 1/10/P/BKG/2007, dated 18.7.2007]

Crop Insurance

Recommendation (Sl. No. 5, Para Nos. 70, 71, 72 & 73)

The National Agricultural Insurance Scheme (NAIS), implemented by the Agricultural Insurance Company of India Limited (AIC), since Rabi 1999-2000 is the principal scheme presently in operation for administration of crop insurance. The scheme is being implemented on 'Area approach' with the block/tehsil taken as a unit area' and claims settled on the basis of yield data received form the State Governments on the basis of conduct of requisite number of crop cutting experiments. While loanee farmers are compulsorily covered under the scheme with the Government providing a 10% subsidy on premium amounts, the scheme is voluntary for non-loanee farmers. It is seen from the information furnished that in Kharif 2004, 12687046 farmers were covered under the scheme, of whom 1222455 loanee farmers were benefited. In Kharif 2005 a total of 12674080 farmers subscribed to the scheme and 1234263 loanee farmers were benefited.

Further, while 3531045 and 4048524 loanee farmers subscribed to this scheme in Rabi 2004-2005 and Rabi 2005-06 respectively the number of beneficiaries were 563141 and 590283 farmers in the two consecutive cropping seasons.

The Committee observe that a Joint Group of Ministry of Agriculture, set up to study the improvements required in the crop insurance schemes which submitted its report in December 2004 had *inter alia* recommended that the village Panchayat be taken as the unit of insurance for major crops; covering selected pre-sowing and post harvest losses, fixing indemnity levels at 90% in low risk areas/crops and 80% for others, and extending insurance coverage to perennial horticultural and vegetable crops and damage caused by wild animals on individual basis. In a similar vein, the Standing Committee on Finance had in their report on Flow to Agriculture and Crop Insurance Scheme presented in 2004-05 recommended that the unit area or area approach of insurance coverage be standardized and fixed as the gram Panchayat for the whole of the country. In their Action taken note on the recommendation of the Committee, the Ministry of Finance had agreed with the view that reduction in the unit area of insurance would help in more realistic assessment of claims. A representative of the Ministry too informed *inter alia* that the intention of the Government was also to reduce the unit area of insurance from the Block to Gram Panchayat level.

The Committee note that while the Government agrees that reducing the unit area of insurance to the village panchayat would enable in realistic and objective assessment of claims, the avowed hindrance in this regard is the additional expenditure and manpower requirements for the crop cutting experiments. The fact however remains that the expert groups set up by the Government too had recommended that the unit area for the crop insurance coverage needs to be reduced for enabling realistic assessment of claims. As recommended in their earlier report of 2004-05, the Committee, therefore, reiterate the need for standardizing and fixing the unit area of insurance as 'Gram Panchayat'. The Committee are further surprised to note that the report of the Joint Group, which was submitted as far back as in December, 2004 is still being considered. As agreed to by the representatives of Ministry while tendering evidence, the Committee desire that the Ministry of Finance should come out with a status paper on crop insurance scheme within a period of three months specifying the extra trained manpower and extra funding which are required for undertaking additional crop cutting experiments as a result of reducing the unit of insurance to the village panchayat level.

The Committee further note that the Agricultural Insurance Company has launched a 'weather based Insurance scheme', namely the Varsha Bima Yojana for specific crops whose yields are largely co-related to rainfall. The Committee, however, find that the premium rate under the scheme which ranges from 6 to 9 percent is quite high. The Government too have in their written submission agreed that there was a 'need to keep the premium rate affordable by subsidizing the scheme'. The Committee, therefore, recommend that the Government needs to subsidise the premium under the scheme so that a large number of farmers can avail the scheme.

Reply of the Government

The figures of farmers benefited during Kharif 2004, Kharif 2005, Rabi 2004-05 and Rabi 2005-06 relate to loanee Small & Marginal farmers. Details of loanee & non-loanee farmers benefitted are given in the **Annexure**.

ANNEXURE

NAIS-DETAILS OF NUMBER OF FARMERS COVERED & BENEFITTED

Season	Kharif 2003	Rabi 2003-04	Kharif 2004	Rabi 2004-05	Kharif 2005	Rabi 2005-06
Farmers Covered	7970830	4421287	12687046	3531045	12674080	4048524
Farmers Benefitted						
Loanee-S/M Farmers	573802	242810	1222455	563141	1234263	590283
Loanee-Others	269652	73888	797814	153701	777820	325441
Loanee-Total	843454	316698	2020269	716842	2012083	915724
Non Loanee-S/M Farmers	275816	636336	342687	29392	312531	34277
Non Loanee-Others	585553	1119882	297980	26545	329680	30073
Non Loanee Total	861369	1756218	640667	55937	642211	64350
Grand Total	1704823	2072916	2660936	772779	2654294	980074

Gram Panchayat has been recommended as 'unit of insurance' by various Committees. Some of the states have already taken steps in this direction.

The National Agricultural Insurance Scheme (NAIS) in its existing form does provide for smaller insurance unit *viz*. village panchayat. However, the States could not lower the insurance unit to the desired level because of the huge consequent increase in the number of CCEs required to be conducted and the consequent manpower requirement and the costs involved. As mentioned in the report of the Joint Group submitted to the Government, a sample exercise was conducted a few years ago under CCIS which broadly estimated an anticipated increase in the cost of the programme by about 35% for every one level of reduction in the size of the insurance unit *i.e.* from block/taluka to village panchayat.

The Joint Group also studied the manpower and the cost implications and made the following recommendations:

State should make use of the existing manpower of the concerned departments to the extent possible. However, where existing manpower is inadequate, staff identified by the State Government as surplus may be trained and re-deployed. Additional Manpower can also be out-sourced in consultation with the implementing agency from agri-clinics, agri-preneurs, agricultural universities, KVKs, retired department officials, unemployed agricultural graduated etc.

Assuming that the major crops would be notified at village panchayat level (on an average two during Kharif and one during Rabi), the number of CCEs required at the village panchayat level based on the sample size of 8 CCEs per unit per crop would be 24 (i.e. 8 x 3). With nearly 22 lakh village panchayats likely to be notified for the major crops, 50 lakh additional CCEs would be required to lower the insurance unit to village panchayat. The cost of conducting each CCE is estimated at Rs. 300. At an estimated cost of Rs. 300 per CCE, the cost of 55 lakh CCEs (existing 5 lakhs + additional 50 lakhs) could be of the order of Rs. 165 crores, of which approx. 90% of the expenditure is recurring. The Joint Group, after considering the importance of reduction of insurance unit and the costs involved in conducting additional CCEs, recommended that the costs for CCEs may be shared between the Government of India and States on 50:50 basis.

Following the provision of NAIs, some of the States/UTs have already notified smaller units for some of the notified crops as detailed below:

Sl.No.	State	Unit of Insurance
1.	Assam	Revenue circle/District
2.	Bihar	Paddy, Wheat-Block/Anchal
3.	Kerala	Zone comprising of 4-5 villages
4.	Madhya Pradesh	Tehsil/Patwari Halka
5.	Meghalaya	Community Development Block
6.	Uttar Pradesh	Sugarcane—Block/no. of blocks; Other crops—Nyay Panchayat/gp of Nyay Panchayats
7.	West Bengal	Gram Panchayat (for selected crops)
8.	Pondicherry	Commune Panchayat
9.	A&N Islands	Gram Panchayat
10.	Uttaranchal	Nyaypanchayat (for wheat crop in Plains)

Further, Govt. of AP notified village as Insurance Unit on pilot basis during Kharif 2005 & Kharif 2006 seasons in the following districts & crops mentioned against each:

Sl.No.	District	Crop
1.	Prakasam	Redgram
2.	Kadapa	Groundnut (UI)
3.	Ananthapur	Groundnut (UI)
4.	Mahaboobnagar	Castor
5.	Karimnagar	Maize

The reduction in the size of the insurance units as already experimented by some of the States for certain areas and crops as stated above, has raised a question mark on the quality aspects of the Crop Cutting Experiment exercise for various reasons such as lack of adequate and trained manpower with the concerned Departments of the State Governments, lack of required additional funds for conducting the huge number of CCEs required to be conducted, NSSO's inability to meet the stipulated supervision norms, the local influence of the farmers, their groups and associations, and the local opinion leaders etc., besides having resulted in manifold increase in the administrative work for the Implementing Agency.

The Varsha Bima was launched in 130 districts in the country in Kharif 2006 season and Weather based insurance Scheme was launched in Rajasthan, Madhya Pradesh, Uttar Pradesh and Maharashtra during Rabi 2006-07 season.

[Ministry of Finance (Department of Financial Services) F.No. 1/10/ P/BKG/207, dated 18/7/2007]

Achievement of FRBM Targets

Recommendation (Sl. No. 10, Para Nos. 130 & 131)

Government has claimed that the projections of revenue and fiscal deficit reduction targets for the current year 2007-08, whereby the revenue and fiscal deficit are budgeted to be brought down from 2% (RE) to 1.5% of GDP and from 3.7% (RE) to 3.3% of the GDP respectively are in consonance with the FRBM roadmap, which envisages to eliminate revenue deficit and bring down fiscal deficit to level below 3% by 2008-09. While the deficit reduction targets projected may be inline with FRBM roadmap, unlike the year 2005-06, where the progress in this direction was 'paused', the rise in the non-plan expenditure of the Government is a matter of concern. Besides, the expenditure on defence, petroleum and fertilizer subsidies etc., is also not in consonance with the recommendations of the 'Task Force on Implementation of the FRBM'.

The non-plan expenditure of the Government for 2007-08, as pointed out by the Finance Secretary amounts to a 6.5% increase over the previous year, excluding the expenditure on purchase of RBI stake in SBI. Moreover the submission, made before the Committee by the Planning Commission, *inter alia* reads, 'it may not be easy for the Government to cut the revenue deficit from 2.1% in 2006-07 to zero percent by 2008-09 while also achieving large increase in Plan expenditure'. The Committee are, therefore, inclined to believe that adhering to fiscal correction targets and measures stipulated under the FRBM Act would be an extremely difficult task for the Government. The Committee, therefore, while emphasizing on the need for ensuring that the deficit reduction targets are strictly adhered to, would also like to have a detailed note on the policy measures by way of which the FRBM goals are proposed to be achieved.

Reply of the Government

As per the Taskforce Report, the central feature of fiscal consolidation should be improvement of the tax-GDP ratio along with improvements in the quality of public investment. The fiscal outcomes projected in the Task Force Report are subject to various assumptions while the implementing process, being dynamic, is expected to respond to economic developments on a real time basis. During the FRBM mandated regime, on the strength of buoyant tax performance and institutional improvements in conjunction with measures to rationalize expenditure, the fiscal performance is on course. The non-plan expenditure as a percentage of GDP, including interest payments, defence, petroleum and fertilizers subsidies, has been progressively declining during the past four years as can be seen in the following table:

Trends in Non-Plan Expenditure as a percentage of GDP

	2004-05	2005-06	2006-07	2007-08 BE
Non-Plan Expenditure	11.70	10.25	10.01	9.40
Major components:				
Interest payments	4.06	3.72	3.62	3.43
Defence Expenditure	2.43	2.26	2.07	2.07
Major Subsidies	1.47	1.33	1.28	1.17
Transfer to State & UT Governments	0.47	0.85	0.90	0.83
Pensions (Defence+Civil)	0.59	0.57	0.53	0.51
Internal Security	0.34	0.35	0.38	0.30

The expenditure on defence, interest payments, and major subsidies, transfers to States/UTs, pensions, internal security etc., are obligatory in nature and account for about 89 per cent of total non-plan expenditure in 2006-07. Any increase in expenditure in these areas would commensurately increase overall non-plan expenditure. Despite the burden of such obligatory expenditure, the non-plan expenditure as a percentage of the total expenditure has declined from 73 percent in 2004-05 to 70 percent in 2007-08 (BE).

Evaluation of non-plan expenditure is an on-going exercise. Notwithstanding the inherent inflexibility in non-plan expenditure, the Government is committed to achieving moderation in growth of non-plan expenditure. Guidelines on austerity and expenditure management are issued from time to time to supplement the General Financial Rules. The progressively declining non-plan expenditure, as well as improving tax-GDP ratio, reflect the Government's commitment to achieving the FRBM targets.

The FRBM Act enjoins the Government to eliminate the revenue deficit and to reduce fiscal deficit to not more than 3 percent of GDP by 2008-09. Increase in expenditure in the social sectors has implications particularly on Revenue Deficit and is sought to be balanced by containment of non-plan revenue expenditure and by increasing revenue realisation through various measures including *inter-alia*, through improved tax administration, broadening the tax base and periodical revision of exemptions. The Government is sensitive to the challenging task of mobilizing resources to meet the expenditure commitments envisaged in XI Plan, while at the same time adhering to FRBM targets. Such challenges also originate from a virtuous shift in Plan priorities in favour of open ended programmes like National Employment Guarantee Scheme as also Bharat Nirman, Urban Renewal Mission which are in the nature of creating pressure on revenue expenditure though these programmes contain substantial component of expenditure on asset creation. Nevertheless, the increase in expenditure on various schemes for poverty alleviation and social sector development including provision for an upgradation of physical infrastructure, budgeted during 2007-08, is sought to be met while adhering to the FRBM deficit targets for the year 2007-08.

The Cabinet Committee on Economic Affairs, on 29.9.2006, had directed 'all the Ministries/Departments to plan and administer their activities keeping in view the fiscal corrections prescribed in the FRBM Act 2003'. Buoyant economic growth along with the above measures is expected to contribute to the achievement of the budgeted deficit targets.

[Ministry of Finance (Department of Economic Affairs), F.No. 3 (10)/2006-FRBM, dated 27.7.2007]

CHAPTER V

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

Disinvestment Policy

Recommendation (Sl. No. 12, Para Nos. 149 & 150)

The Committee express their anguish over the fact that in spite of the assurance given and the reiteration of the Committee's recommendation for bringing out a policy document spelling out the disinvestment policy approach, goals and objectives, the Government has been unable to come out with the same till date. The Committee cannot understand as to why a clear policy on Disinvestment, which is of immense national importance *inter alia* in regard to aspects of utilizing disinvestment proceeds for funding social welfare projects and capital investment requirements of profitable and revivable PSUs is not being enunciated by the Government. The Committee are constrained to note that though a decision was taken on 6 July, 2006 to keep all disinvestment decisions and proposals on hold pending further review, the Government is unable to indicate any timeframe for completion of the said review. The Committee are also perturbed to note that despite the decision to keep on hold all proposals and decisions relating to disinvestment, the Government has, on 8 February, 2007 proposed to back the "Offer of Sale" of 10%, 5% and 5% of shareholding by the three power companies, *viz*., Rural Electrification Corporation Limited (REC), Power Grid Corporation of India Limited (PGCIL), and National Hydro-electric Power Corporation Limited (NHPC) respectively.

The Committee would like to urge upon the Government to avoid the apparent ambiguous stance on Disinvestment of PSUs and refrain from resorting to ad-hocism in its policy approach. The Committee, therefore, once again, emphasize on the need for coming out with a comprehensive policy document on the Government's approach to disinvestment of public sector holdings.

Reply of the Government

A review of the Government's decision dated 6th July, 2006 to keep all disinvestment decisions and proposals on hold has not taken place so far. Three power companies, *viz*, Rural Electrification Corporation Limited, Power Grid Corporation of India Limited and National Hydro-electric Power Corporation Limited propose to make public offerings of equity equal to 10% each of their pre-issue paid-up equity capital. Government has decided to piggy-back with an 'Offer for Sale' of 10%, 5% and 5% respectively, out of its shareholding.

The White Paper on Disinvestment of Central Public Sector Enterprises has after completion of inter-ministerial consultations been submitted for the approval of the competent authority. After approval, further action would be taken for tabling the White Paper in the Parliament for information.

NEW DELHI;
28 *November*, 2007
7 *Agrahayana*, 1929 *(Saka)*

ANANTH KUMAR,
Chairman,
Standing Committee on Finance.

MINUTES OF THE NINTH SITTING OF THE STANDING COMMITTEE ON FINANCE

The Committee sat on Wednesday, the 28th November, 2007 from 1600 hrs. to 1700 hrs. in Committee Room No. 'E', Parliament House Annexe, New Delhi.

PRESENT

Shri Ananth Kumar — *Chairman*

MEMBERS

Lok Sabha

2. Shri Gurudas Dasgupta
3. Shri Bhartruhari Mahtab
4. Shri Rupchand Pal
5. Shri K.S. Rao
6. Shri Magunta Sreenivasulu Reddy
7. Shri M.A. Kharabela Swain

Rajya Sabha

8. Shri Santosh Bagrodia
9. Shri Mangani Lal Mandal
10. Shri S. Anbalagan
11. Shri Moinul Hassan

SECRETARIAT

1. Shri A. Louis Martin — *Joint Secretary*
2. Shri T.G. Chandrasekhar — *Deputy Secretary*
3. Shri G. Srinivasulu — *Deputy Secretary-II*

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

3. The Committee, then took up the following draft reports for consideration:

(i) Draft action taken Report on the recommendations/observations contained in the 51st Report on Demands for Grants (2007-08) of the Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment);

(ii) Draft action taken Report on the recommendations/ observations contained in the 54th Report on Demands for Grants (2007-08) of the Ministry of Statistics and Programme Implementation.

(iii) Draft action taken Report on the recommendations/ observations contained in the 41st Report on 'Introduction of New Income Tax Return Form';

(iv) Draft action taken Report on the recommendations/ observations contained in the 52nd Report on Demands for Grants (2007-08) of the Ministry of Finance (Department of Revenue);

(v) Draft action taken Report on the recommendations/ observations contained in the 53rd Report on Demands for Grants (2007-08) of the Ministry of Planning;

(vi) Draft action taken Report on the recommendations/ observations contained in the 55th Report on Demands for Grants (2007-08) of the Ministry of Corporate Affairs; and

(vii) Draft action taken Report on the recommendations/ observations contained in the 43rd Report on 'Efficacy of Reform Process in Capital Market—Recent IPO Scam'.

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

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

The Committee then adjourned.

APPENDIX

(*Vide* Para 3 of the introduction)

ANALYSIS OF THE ACTION TAKEN BY GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE FIFTY-FIRST REPORT OF THE STANDING COMMITTEE ON FINANCE (FOURTEENTH LOK SABHA) ON DEMANDS FOR GRANTS (2007-2008) OF THE MINISTRY OF FINANCE (DEPARTMENTS OF ECONOMIC AFFAIRS, EXPENDITURE AND DISINVESTMENT)

		Total	% of Total
(i)	Total number of recommendations	13	
(ii)	Recommendations/observations which have been accepted by the Government (Vide Recommendations at Sl. Nos. 1, 4, 6, 7, 8, 9 & 11)	7	53.84%
(iii)	Recommendations/observations which the Committee do not desire to pursue in view of the Government's replies (Vide Recommendations at Sl. Nos. 2 & 13)	2	15.38%
(iv)	Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee (Vide Recommendations at Sl. Nos. 3, 5 & 10)	3	23.07%
(v)	Recommendation/observation in respect of which final reply of the Government is still awaited (Vide Recommendation at Sl. No. 12)	1	07.69%