11

STANDING COMMITTEE ON FINANCE
(2009-10)

FIFTEENTH LOK SABHA

MINISTRY OF FINANCE
(Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment)

Demands for Grants
(2010-11)

ELEVENTH REPORT

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

April, 2010/Chaitra, 1932 (Saka)

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Presented to Lok Sabha on 19 April, 2010
Laid in Rajya Sabha on 19 April, 2010

LOK SABHA SECRETARIAT
NEW DELHI

April, 2010/Chaitra, 1932 (Saka)

CONTENTS

PART I

BACKGROUND ANALYSIS

PART – II

APPENDICES

COMPOSITION OF STANDING COMMITTEE ON FINANCE – 2009-2010

Dr. Murli Manohar Joshi - Chairman

MEMBERS

LOK SABHA

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3. Shri Sudip Bandyopadhyay
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RAJYA SABHA

22. Shri Raashid Alvi
23. Dr. K.V.P. Ramachandra Rao
24. Shri Vijay Jawaharlal Darda
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27. Shri Mahendra Mohan
28. Shri S. Anbalagan
29. Dr. Mahendra Prasad
30. Shri Y.P. Trivedi
31. Shri Rajeev Chandrasekhar

SECRETARIAT

1.	Shri A.K. Singh	-	Joint Secretary
2.	Shri T.G. Chandrasekhar	-	Additional Director
3.	Shri R.K. Suryanarayanan	-	Deputy Secretary

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* Nominated to this Committee w.e.f. 09.03.2010 vice Shri Gopinath Munde, MP

INTRODUCTION

I, the Chairman of the Standing Committee on Finance, having been authorized by the Committee, present this Eleventh Report (15th Lok Sabha) on the 'Demands for Grants (2010-11) of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment)'.

2. The Committee took oral evidence of the representatives of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment) on 29 March, 2010.

3. The Committee considered and adopted this Report at their sitting held on 15 April, 2010. Minutes of the sittings of the Committee are given in appendix to the Report.

4. The Committee wish to express their thanks to the representatives of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment) for appearing before the Committee and furnishing the material and information which the Committee desired in connection with the examination of the Demands for Grants (2010-11).

New Delhi;
<u>15 April, 2010</u>
25 Chaitra,1932 (Saka)

DR. MURLI MANOHAR JOSHI,
Chairman,
Standing Committee on Finance.

PART I

BACKGROUND ANALAYSIS

CHAPTER I

BUDGETARY ALLOCATION

1.1 The Ministry of Finance is responsible for the administration of the finances of the Central Government. It is concerned with economic and financial matters affecting the country as a whole, including mobilization of resources for development. It regulates the expenditure of the Central Government, including the transfer of resources to States. The Ministry comprises of the five Departments namely:

(i) Department of Economic Affairs
(ii) Department of Expenditure
(iii) Department of Revenue
(iv) Department of Disinvestment; and
(v) Department of Financial Services

1.2 The Ministry of Finance is responsible in all for 13 Demands for Grants, which cover the above 5 Departments. These Demands are namely:

(a) Demand No. 32 –Department of Economic Affairs
(b) Demand No. 33 – Department of Financial Services
(c) Demand No. 34 – Appropriation – Interest Payments
(d) Demand No.35 – Transfers to State and Union Territory Governments
(e) Demand No. 36 – Loans to Government Servants etc.
(f) Demand No. 37 - Appropriation – Repayment of Debt
(g) Demand No. 38 – Department of Expenditure
(h) Demand No. 39 – Pensions
(i) Demand No. 40 – Indian Audit and Accounts Department
(j) Demand No. 41 – Department of Revenue
(k) Demand No. 42 – Direct Taxes
(l) Demand No. 43 – Indirect Taxes
(m) Demand No. 44 – Department of Disinvestment

The Detailed Demands for Grants and the Outcome Budget of the Ministry for 2010-11 were laid on the Table of the House on 12 March, 2010.

1.3 This Report deals with four out of five Departments under the Ministry of Finance covering 10 Demands. Matters relating to one Department *viz*. Department of Revenue and three Demands for Grants concerning the Department are dealt with in a separate report.

(A) Department of Economic Affairs

1.4 The Department of Economic Affairs (DEA) deals with four Demands. These are: (i) Demand No. 32, Department of Economic Affairs, (ii) Demand No. 34, Appropriation— Interest Payments, (iii) Demand No. 36, Loan to Government Servants etc., and (iv) Demand No. 37, Appropriation—Repayment of Debt. The DEA Demands for Grants predominantly cover interest payments and repayment of debt.

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

1.5 Total Budget provision for 2010-11 is Rs. 8,671.48 crore. The break-up is for Plan Rs. 3,233.72 crore and Non-Plan Rs. 5,437.76 crore.

1.6 Demand No. 32 deals with the number of items where payments are made for specific activities within the country as also to the international organizations. It also caters to the following:

- Secretariat/establishment expenditure of the Department of Economic Affairs, National Savings Institute and its network of regional offices, Securities Appellate Tribunal (SAT), Investment Commission and the Thirteenth Finance Commission, establishment expenditure of the Economic wing of the Embassy of India Washington and Tokyo.

- Lumpsum provision for transfer to unorganized labour (Rs. 1000 crore).

- Assistance for Infrastructure Development through Public Private Partnership (PPP) through provision of Viability Gap Funding (Rs. 480.26 crore).

- Subsidy to Railways towards dividend relief (Rs. 2829.88 crore).

- Interest Equalisation support to EXIM Bank of India for Government of India supported lines of credit extended to developing countries (Rs. 130 crore).

- Purchase of coins from Security Printing & Minting Corporation of India Ltd. for supply to Reserve Bank of India (Rs. 1063.20 crore).

- Subscription to the International Monetary Fund (IMF) towards Quota increase and for meeting the Maintenance of Value (MOV) obligation arising out of IMFs revaluation of its holding of Indian Rupees with India.

- Other expenditures include contribution to various international bodies i.e. UNDP; Technical Assistance Scheme of Asian Development Bank(ADB) /India Trust Fund in ADB; Global Environment Facility (GEF) etc., Grants in Aid to institutions, Technical Aid to South and South East Asia under the Colombo Plan.

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

1.7 Interest Payments cover payment of interest on Central Government debt obligations e.g. treasury bills and connected securities issued to RBI, other internal debts, external debts of Government of India, State Provident Funds, Insurance and Pension Funds, Special Deposits with the Government and payments on account of other contractual services. Total budget provision under Non Plan is Rs. 2,51,664 crore for this demand.

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

1.8 The budget provision under this grant includes the requirement of all the Ministries and Departments and their subordinate organizations and Union Territory administrations for release of loans and advances like, House building, motor vehicles, computers. It also includes provisions for advances to Members of Parliament for purchase of motor conveyance. Total budget provision under Non Plan is Rs. 300 crore for this demand.

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

1.9 Repayment of Debt is a charged expenditure. This caters to the repayment of borrowings of the Central Government both internal and external as well as for discharge of treasury bills of different maturities, ways and means advances, etc. Total budget provision under Non Plan is Rs. 33,82,664.56 crore for this demand.

(B) Department of Expenditure

1.10 The Department of Expenditure oversees the expenditure management in the Central Ministries and Departments through the interface with the Financial Advisors. The overall coordination of the Outcome Budget of different Ministries/Departments, release of funds to State Governments for implementing developmental works and matters relating to Central Plan are the important activities of the Department which provide the entire canvas of developmental activity of the Central Government.

1.11 One of the main functions of the Department of Expenditure is to appraise projects which come before the Expenditure Finance Committee and the Public Investment Board.

1.12 There are three Demands directly administered by the Department of Expenditure. The most important Demand is Demand No. 35 which is about transfers to States and Union Territories. The other Demand is Demand No. 38 about administrative expenditure of the Department of Expenditure and Demand No. 39 which relates to pensions. Demand No. 35 relates to the two main transfers. One is the Central Assitance to States for Plans and the other one is the Grants to States under the proviso of Article 275 (1) of the Constitution on the recommendations of the Finance Commission. These are known as the Finance Commission Grants.

1.13 Demand No. 38 deals with the administrative expenditure of the Department of Expenditure which comprises the Department of Expenditure, Central Pension Accounting Office, Controller General of Accounts, Pay and Accounts Office. The total budget provision under this demand is Rs. 120.85 crore, of which Rs.10.50 crore is under Plan and Rs. 10.35 crore is under Non Plan.

1.14 Demand No. 39 is about pension which is payment of pension and gratuity to civilian pensioners, including provision for payment of pensions and gratuities including those charged on the Consolidated Fund of India, which are later recovered from the State Governments. Provisions have also been included in this Demand for contributions to Contributory and other Provident Funds, Deposit Linked Insurance Scheme, Central Government Employees Insurance Scheme and for meeting expenditure on medical treatment of pensioners under CGHS facility. Total budget provision under Non Plan is Rs. 15930.29 crore for this demand.

(C) Department of Financial Services

1.15 The Department of Financial Services has only one Demand viz. Demand no. 33. The total budget provision for 2010-11 is Rs 49,609.10 crore which includes Rs 50 crore under Plan and Rs 49,559.10 crore under Non-Plan.

The provision under this Grant caters to the following :

- Secretariat / establishment expenditure of the Department of Financial Services ; office of Custodian and Special courts set up for investigating irregularities involving transactions in securities, Appellate Authority for Industrial and Financial Reconstruction(AAIFR) , Board for Industrial and Financial Reconstruction (BIFR) and Debt Recovery Tribunals. It also includes grants to Pension Fund Regulatory Development Authority (PFRDA) and expenses related to office of the Court of Liquidator, Kolkata.

- Contribution for constitution of Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF) (Rs. 10 crore each).

- Payment of subsidy towards interest subvention of 1 per cent on Housing Loans up to Rs. 10 lakh (Rs. 700 crore).

- Payment to LIC for implementation of pension Plan for senior citizens scheme (Rs 209.32 crore).

- Payment to Farmers Debt Relief Fund for implementation of Agricultural Debt Waiver and Debt Relief Scheme, 2008 (Rs 12,000.00 crore).

- Assistance to Public Sector Banks for opening bank branches in unbanked blocks (Rs. 50 crore)

- Payment of subsidy towards interest subvention for providing short term credit to Farmers (Rs 3000.00 crore).

- Revival of Long Term Co-operative Credit structure in the country (Rs 1000.00 crore).

- Subscription to the share capital of Export-Import Bank of India(Rs 300.00 crore.

- Equity support to India Infrastructure Finance Company Ltd.(IIFCL) (Rs 500.00 crore)

- Contribution to Securities redemption Fund for redeeming SLR Marketable Securities issued against subscription in the rights issue of equity shares of State Bank of India (Rs.625.00 crore).

(D) Department of Disinvestment:

1.16 Demand No. 44 pertains to the Department of Disinvestment. This Department has no Plan or Non-Plan Scheme. The entire Budget Provision is under Non-Plan for salary/wages, payment for professional/special services and for other administrative expenses. BE under Revenue Section for the year 2010-11 is Rs. 63.36 crore.

1.17 The Government has in November, 2005 constituted “National Investment Fund” (NIF) to be maintained outside the Consolidated Fund of India into which the proceeds from disinvestments of Central Public Sector Enterprises would be channelized.

CHAPTER II

Department of Economic Affairs

A. Under-utilisation of funds

(i) National Social Security Fund (NSSF)

2.0 As a follow up to the Unorganised Sector Workers Social Security Act, 2008, it has been decided to set up a National Social Security Fund for unorganized sector workers. A provision of Rs. 1000 crore has been kept in BE 2010-11 for transfer to National Social Security Fund for Unorganised labour. This fund will support schemes for weavers, toddy tappers, rickshaw pullers, bidi workers etc.

2.1 Asked about the schemes/programmes to be supported out of this fund, the Finance Secretary, during his deposition before the Committee stated as below:

> "Once the budgetary process gets the approval of Parliament, the architecture of this scheme will be finalized".

2.2 The Secretary, Expenditure, further clarified as under:

> "This fund has been kept in the Ministry of Finance, but the various schemes will be of different Departments which deal with the subject. For example, if there is a scheme of some unorganised sector like domestic servants or people like *thelawalas* then that particular Ministry will have to formulate the scheme and then come for appraisal. The money will again pass through the Budget."

2.3 When the Committee pointed out, that without conceptualising the schemes in advance, there is a possibility of money remaining unutilised, the Secretary, Expenditure, stated as follows:

> "The idea is that it would not lapse since it would go into the public account. There is one scheme where it is thought of using the Fund. In the Budget Speech mention has been made that Government will contribute a certain amount per year for unorganised workers who join the new pension scheme."

2.4 The Finance Secretary, while tendering evidence, also informed the Committee that the Ministry of Finance has communicated to all the Ministries concerned about all the items in the Budget speech including the NSSF and advised them to prepare the schemes even before the approval by the Parliament to ensure that the funds are utilised in the current financial year. In this regard, he stated:

> "On time frame, what I can say is that we will do our best to put the architecture in place at the earliest. But let me honestly say that it will have to go through the normal process which the hon. Chairman outlined. The Ministries prepare the Schemes. The Schemes are approved by the competent authorities and then they are implemented by the agencies concerned. As this is an important part of the programme and agenda, we will put in place a coordination mechanism at a senior level to ensure that the Scheme takes off in the intention with which it has been announced."

(ii) Assistance for Infrastructure Development- Lump sum Provision

3.0 The budgetary allocation of funds, revised estimates and actual expenditure under this head for the last four years is as under:

(Plan- Rs. In crore)

Year	Budget Estimates	Revised Estimates	Actuals
2007-08	100.00	23.00	23.00
2008-09	92.10	61.67	54.07
2009-10	150.00	45.95	33.72
2010-11	480.26	-	-

3.1 Explaining the reasons for continuous under- utilization of funds under this head, the Ministry, in one of their written replies stated as below:

> "**(i) Viability Gap Funding Scheme (Plan):** PPP projects, which have economic and social justification but are not commercially viable, need support from the Government to cover the viability gap. DEA has notified the Scheme for Financial Support to projects that are to be implemented in the PPP format. Under the Scheme, Viability Gap Funding is provided by Government of India and accordingly provisions are made in the Budget of Ministry of Finance, Department of Economic Affairs.
>
> **(i)** A provision of Rs.150 crore was made in BE 2008-09 and after careful monitoring and review, the Revised Estimates 2008-09 have been made to Rs.45.95 crore and final requirement of Rs.45.95 crore based on the requirement proposed by sponsoring authority. However, Projects did not get a bid response to the prevalent economic conditions and the bid process got extended. The reduction is due to proposals of Government of **Maharashtra** (where the bidding has been completed) have not been granted final approval and bidding in respect of proposals of Government of **Karnataka** has failed. Hence, there is no requirement against these projects in 2009-10. The reasons for variations is less expenditure than anticipated due to less demand by Sponsoring Authority.

(iii) The Budget Estimates were formulated based on the approved projects where 'in principle' approval was granted. However, since the scheme was new, the sponsoring authorities did not have any prior experience in implementing the scheme. They were also unfamiliar with implementation of projects in the PPP framework. Hence, in-spite of grant of 'in-principle' approval by the Department of Economic Affairs, there were delay in completion of the bidding process by the Project authorities.

In 2007-08, a Budget provision of Rs.100 crore was made in MH 5475-Assistance for Infrastructure Development at BE stage. The Budget Estimates were framed based on the 'in principle' approval given to the projects submitted by sponsoring authorities. Revision was made only for projects which were in an advanced stage of bidding. It was found that some of the projects, on completion of the bidding process, had received 'negative grant' and the State Governments did not require Viability Gap Funding for those projects. Accordingly a provision of Rs.23 crore was made in Revised Estimates 2007-08. The entire amount of Rs.23 crore was disbursed in 2007-08.
A provision of Rs.92.10 crore was made for VGF proposals as per the requirement of Sponsoring Authority in 2008-09. A review was done. It was found that many projects on bidding had received negative grant premium, and therefore did not require the VGF approved for the project. The Revised Estimates was reduced to Rs.61.67 crore. During 2008-09, Rs.54.07 crore were disbursed. The balance of Rs.7.60 crore was surrendered due to the reasons that Government of Maharashtra earlier asked for VGF assistance of Rs.12.18 crore during this year and their final requirement indicated in March, 2009 was Nil. "

3.2 On the mechanism of Public Private Partnership projects, the Committee were informed that the PPP is one of the instrumentalities to address the deficit in infrastructure. It entails incurring of about one-third of the total expenditure on infrastructure by the Government. The Planning Commission appraises the overall architecture of the projects. These projects are reviewed by a Empowered Committee, chaired by the Finance Secretary.

3.3 While tendering evidence, the Finance Secretary explained the shortfall in expenditure as follows:

> Sir, the main Scheme here is, what is called, a 'Viability Gap Funding Scheme' in relation to Public Private Partnership projects. The Scheme's basic framework is that the projects which are economically and socially important and justified but not fully commercially viable are to be supported by the Government. So, Centre's mechanism for the Viability Gap Funding Scheme is 20 per cent. The Public Private Partnership projects have taken off essentially in the last two or three years and they have not yet been able to reach a stage where they are in a position to draw because the expenditure actually goes after sufficient amount of expenditure has incurred. There are various stages of *pari passu* with which the Funding Scheme operates and the money is given…"

3.4 Replying to a query on proposing higher budgetary provisions each year despite insufficient utilisation of the budgeted funds, the Secretary stated:

> "We hope every time that the funding under this Scheme will increase. It has not increased to the extent that we would wish it to. For the current year, we have provided again a substantial amount but as we go along we shall see. The reason is that now the projects are in a position to move ahead and, therefore, the Budget Estimate has been provided for that but we shall see as it moves ahead… the broad basis that we have is that a large number of projects for road sector under PPP have been awarded in the last few months. These are the two main sectors which will take up the funding under the Viability Gap Funding Scheme. But beyond that it is not possible to predict very precisely what would be the actual off-take under the Viability Gap Funding Scheme… Once the project is given, in principle approval by the Committee, there is an understanding that perhaps it will need Viability Gap Funding, subject to the parameter let us say of 15 per cent of the amount translating into Rs. 100 crore by way of example. But it is not something, which is predetermined…But the project is competitively bidded out. Very often, we have found cases where instead of VGF, we get negative grant in the sense that the bidder for that particular infrastructural project has to pay the Government because it is competitively bid."

3.5 However, recognising the need to be more prudent and pragmatic in formulating the budgetary provisions, the Finance Secretary stated as under:

> "It cannot be the intention of the Ministry or the hon. Members that we must make sure that we give more viability gap funding and therefore, we merely take steps to

fulfil whatever is the Budget allocation. Yes, we should frame the Budget on realistic grounds based on what is likely to come up."

B. Debt Burden of the Government

4.0 Public debt of the Central Government has witnessed continuous growth due to persistent recourse to deficit financing, albeit at a moderated pace during last few years. Over time, the pattern of financing fiscal deficit has undergone a significant change. More than 90 per cent of the deficit is being financed through domestic resources, greater reliance is being placed on the market loans with market determined rates of interest. Two other items included in the domestic debt/liabilities of the Central Government are Net accretions to National Small Savings Fund (NSSF) and borrowings under Market Stabilization Scheme. Financing of deficit, to a smaller extent is also being financed through external debt and other internal liabilities or through cash draw down.

4.1 The Economic Survey 2009-10 states that under the Fiscal Responsibility Budget Management Act (FRBMA), the rule focuses on incremental assumption of liabilities. By and large, this rule was adhered to in the post FRBMA period; since 2008-09, there has been a rise in the assumption of net incremental liabilities as a result of the expansionary fiscal policy stance. As a result, the ratio of outstanding liabilities to the GDP after falling from a level of 61.6 per cent in 2004-05 to 56.3 per cent in 2008-09 (RE) has risen marginally to 56.7 per cent in 2009-10 (BE). Internal debt, mainly market borrowings, continued to be the main component of outstanding liabilities. The trend of internal and external debt as percentage of GDP as reported in the Economic Survey 2009-10 for the last five years is as given below:

(As per cent of GDP)

Year (end March)	Internal debt	Other internal liabilities	External debt (Outstanding)*	Total Outstanding Liabilities
2004-05	39.4	20.3	1.9	61.6
2005-06	37.5	20.9	2.5	61.0
2006-07	36.1	20.8	2.4	59.3
2007-08	36.5	18.5	2.3	57.3
2008-09(RE)	36.1	17.9	2.2	56.3
2009-10(BE)	38.2	16.2	2.2	56.7

*External debt figures represent borrowings by Central Government from external sources and are based upon historical rates of exchange

4.2 As per the Economic Survey 2009-10, the interest payments appropriated substantial proportions of revenue receipts and the efforts in the FRBMA period were to reduce the level of deficits and incremental assumption of debt to contain the interest burden. Interest payments as a proportion of revenue receipts declined from a level of 52.1 per cent in 1998-99 to a level of 31.6 per cent in 2007-08. They were at the 35 per cent level in 2008-09 (provisional) and were budgeted at 36.7 per cent in 2009-10 (BE). The data on debt servicing as given in Budget papers for the last six years is as given below which shows that around 36 to 38 per cent of revenue receipts continue to be paid as interest or for servicing of debt :

(In crores of Rupees)

Year	Total Interest payments	Revenue receipts	Interest payments as % of revenue receipts
2005-06(RE)	1,30,032	3,48,474	37.3
2006-07(RE)	1,46,192	4,23,331	34.5
2007-08(RE)	1,71,971	5,25,098	32.8
2008-09	1,92,204	5,40,259	35.6
2009-10(RE)	2,19,500	5,77,294	38.0
2010-11(BE)	2,48,664	6,82,212	36.4

4.3 In reply to a query on total debt burden of the country, the Finance Secretary stated as follows while deposing before the Committee:

> "I would submit that the debt burden of the Central Government is in the region of about 55 or 56 per cent of GDP. If you take the debt burden of the State Governments also, which is about 25 per cent, it comes to the about 80 per cent of the GDP for the country as a whole."

4.4 As per the Economic Survey 2009-10, the combined finances of the States exhibited a faster than anticipated turnaround in 2005-06, reporting a fiscal deficit level of 2.4 per cent of GDP, following adoption of the fiscal responsibility legislation. This was facilitated by the growth in their own revenues as a result of implementation of Value added tax (VAT), buoyancy in Central taxes, the higher levels of transfers and the Scheme of Debt Consolidation and Waiver linked to fiscal consolidation. However with relaxation given to States to obviate the impact of the global crisis the fiscal deficit of the States has been budgeted at 3.2 per cent of GDP in 2009-10.

4.5 The Thirteenth Finance Commission, in their report have observed that the debt-GDP ratio for 2009-10 is estimated to reach 82 per cent well above the previous Finance Commission target of 75 per cent owing largely to adverse macroeconomic situations in 2008-09. The Commission has specified the target for combined debt GDP ratio to be 68 per cent of GDP (net of Central loans to States) in 2014-15, with States' debt GDP ratio projected at 25 per cent, based on targets of fiscal deficit for Centre and States as fixed by the Commission.

4.6 In the Medium Term Fiscal Policy Statement, presented with the Union Budget, 2010-11, it is stated that the estimated debt GDP ratio for Central Government would be 51.5 per cent in RE 2009-10 and 51.1 per cent in BE 2010-11 respectively. With the projected level of fiscal deficit of 4.8 per cent of GDP in 20110-12 and 4.1 per cent of GDP in 2012-13, the estimated debt GDP ratio would be 50 per cent and 48.2 per cent respectively. These estimates indicate that the Government would be able to bring down the debt GDP ratio for Central Government to the recommended level of 45 per cent by the 13th Finance Commission by 2014-15.

4.7 However the Finance Secretary, while explaining the measures for reducing the debt GDP ratio expressed apprehension about adherence to the targets of fiscal deficit, fixed by the Commission, given the limitations in contracting expenditure, stated as below:

> "The objective is to reduce this. The Finance Commission has mentioned that for the Central Government it should be brought down to 50 per cent by the year 2012-2013. So, the objective is as fiscal deficit and revenue deficit will contract correspondingly, quite logically, the debt burden of the Central Government will also come down.
>
> As the Committee is aware, the Central Government had enacted, and thereafter most of the State Government also enacted, what is called Fiscal Responsibility and Budget Management Act, which enjoined upon the Central Government, so far as the Central Act is concerned, to reduce the revenue deficit to zero and then there were rules which said that fiscal deficit has to be brought down over a period of time and there were numbers mentioned. It is true that in the last two years or so, because of high level of spending, those

targets have not been achieved and they have been breached. This has been reported to Parliament.
We have received the recommendations of the 13th Finance Commission and as required under the FRBM Act, we have placed before the Parliament Medium Term Fiscal Policy Statement… It is not likely that we will be reaching the three per cent fiscal deficit target by 2012-13. It will go beyond that because there are limits to contracting expenditure which may also not be good because spending is required to a certain extent for creating various assets and social security programmes. Similarly, the revenue deficit is nowhere near zero in terms of Medium Term Fiscal Policy Statement."

C. Regulation of Unit Linked Insurance Products (ULIPs)

5.0 ULIPs were introduced in life insurance sector in India as far back as 2001 but they became popular only from 2004 onwards because of boom in the stock market. As on 31.3.2009, the number of linked policies in force in life insurance sector stood at over 7.02 crore on a total sum assured of Rs. 8.5 lakh crores.

5.1 Section 2 (11) of Insurance Act, 1938 defines Life Insurance Business and Section 26 of IRDA Act, 1999 confers power upon the IRDA to frame regulations to carry out the purpose of the Act. Accordingly, in exercise of the said powers, IRDA has notified IRDA (Registration of Insurance Companies), 2000 under which life insurance includes contracts of both linked and non-linked type. However SEBI is of the view that ULIP products have a investment component and these products are for the sale to general public and it is the mandate of SEBI to regulate the sale of products as the members of public are exposed to market risks. SEBI had issued Show Cause Notices to 14 insurance companies asking them to explain why appropriate action should not be taken against these companies under relevant provision of SEBI Act, 1992 for launching products that are akin to mutual fund schemes without obtaining requisite certificate of registration from SEBI.

5.2 Asked to explain the current status in resolving issues of regulatory overlap between SEBI and IRDA, the Ministry of Finance (Department of Economic Affairs), in a written reply, stated as below:

> "At the instance of Ministry of Finance, SEBI and IRDA agreed to discuss and resolve the issue. These discussions are under way."

5.3 Questioned on the issue of any commonality in the disclosure norms etc. for mutual fund and ULIP products, the Department of Economic Affairs, submitted as below:

> "There is no clear commonality in the disclosure norms presently prevalent for mutual fund products and ULIPs. The current norms regarding loads, annual recurring expenses, calculation of Net Asset Value, Know Your Client (KYC), advertisement and disclosures are made very stringent and transparent for mutual funds to protect the interest of investors."

5.4 In a news report dated 11 April, 2010, the ban imposed by SEBI on 14 private life insurance companies and stand taken by IRDA has been reported as under:

> "The SEBI banned 14 private life insurers, unless they registered with SEBI and took its permission to sell these products. The decision followed show cause notice to these entities asking them to explain why action should not be taken against them for selling ULIPs without SEBI permission. The IRDA is satisfied that the order of SEBI will bring the insurance industry to a stand still which would not be in public interest and would be detrimental to the interests of the policyholders and prejudicial to the interests of the insurers. Hence, IRDA directed to note all the insurance companies that they shall continue to carry out insurance business as usual including offering, marketing and servicing ULIPs in accordance with the Insurance Act, 1938, Rules, Regulations and Guidelines issued thereunder by the IRDA."

Chapter III

Department of Financial Services

A. Under utilization of the corpus of Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF)

6.0 The Union Minister of Finance, in his Budget Speech for 2007-08, announced the constitution of the Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF), with an overall corpus of Rs. 500 crore each, to be contributed by the Central Government, Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD) in the ratio of 40:40:20. These funds were constituted with a view to ensuring access to timely and adequate credit and financial services to vulnerable groups, such as weaker sections and low income groups, at an affordable cost. The objective of FIF is to support promotional and developmental activities with a view to securing greater financial inclusion while FITF aims at promoting financial inclusion, stimulating the transfer of research and technology in financial inclusion.

6.1 The Government of India has released Rs. 20 crore to each of these Funds in 2007-08. As on 31 March 2008, GOI contributed Rs.10 crore each in the funds and NABARD Rs.5 crore each. RBI indicated that they would contribute on reimbursement basis. A provision of Rs. 10 crore for each fund was made in RE 2009-10 and similarly a sum of Rs. 10 crore for each fund has been provided in BE 2010-11. The projects under these funds have been sanctioned for a period of 3-5 years, mostly sanctioned/disbursed during the later half of 2009-10 and the utilization under these projects and results achieved thereunder would be monitored during 2010-11. The status of utilization and unspent balances for the last three years have been given in the following table:

(Rs. In crore)

Fund	As on 1.4.2008			During 1.4.08 to 31.03.09						During 1.4.09 to 31.1.2010			
	Contribution@			Contribution				Contribution		Utilisation			
	GOI	NABARD	Unspent Balances	GOI	NABARD & Interest credited	Utilisa-tion (Released)	Position As on 31.3.2009	GOI	NABARD & Interest credited	Committed/ Under consideration	Released	Total	Position As on 31.3.2009
FIF	10	5	15	0	19.45	0.36	34.09	0	0	12.24	7.54	19.78	14.31
FITF	10	5	15	0	33.46	0.09	48.37	0	0	91.3	0.93	92.23	$

@ RBI contribution to be received on reimbursement basis.

$ As on 31.1.2010, the commitment made under FITF exceeds the balance in the Fund.

6.2 Responding to a query on reasons for non utilization of funds during the last two years, the Ministry, in their written reply, submitted as below:

> “So far the Advisory Committee has approved around 23 projects involving Rs.18.65 crore (FIF) and Rs.8.77 crore (FITF).The sanctioned amount (out of FIF/FITF) is generally released on reimbursement basis in accordance with identified project deliverables. Hence there is a process time lag between sanction and release of funds. The provision of Rs.10 crore available in BE 2009-10 in each fund is being released to NABARD in March, 2010.
>
> **Reasons for low disbursal are**:
>
> (a) The releases to the projects sanctioned are on reimbursement basis. Banks have to implement project and seek reimbursement for NABARD for funds after implementation.
>
> (b) The projects are sanctioned over a period of 3-5 years, mechanism based on the viability gap funding, funds will then be released after assessment.
>
> © NREGA project payments are ineligible under FIF/FITF.
>
> (d) CBs are discouraged as per the policy of advisory Board- they are eligible for only 25% in most of the areas (except North Eastern regions).
>
> (e) RRBs/Coops take time to sink the projects, due to lack of perspective and technically qualified staff.
>
> (f) Individuals to be encouraged as BCs in lieu of sec 25 companies. This will take time to sink in, due to low margins.
>
> (g) Big NGOs/NBFCs are not being encouraged to be supported as BCs directly, as per RBI policy.
>
> (h) RBI has advised that the FIF / FITF proposals have to come from banks only.
>
> (i) The role of Coops in FI is not yet clear. RBI has been referred to relax criteria in the matter.
>
> (j) Advisory Board encourages pilots, not scalability, in view of constraints regarding funds receipt from others.
>
> It is to be mentioned that there is necessity of having sufficient corpus in the funds in order to make commitments. Inadequate corpus, limits the commitments.”

B. Financial Inclusion

7.0 Financial Inclusion has gained the main focus of the policy in view of the still existent significant sections of unbanked population and regions. The Trend and Progress of Banking in India, published by the Reserve Bank of India states that despite the expansion of the banking network during the last four decades, a sizeable proportion of the households, especially in rural areas, do not have a bank account. Thus, it has been the endeavour of the Government and the Reserve Bank to facilitate providing formal financial services to the hitherto unbanked/under banked areas. The Reserve Bank used the term ‘financial inclusion’ for the first time in its Annual Policy Statement of 2005-06. Since then, the Bank has taken several measures for promoting financial inclusion such as advising banks to open ‘no frills’ accounts, introduction of Business Correspondent (BC)/Business Facilitator (BF) model, promotion of financial literacy, and adoption of Information and Communication Technology solutions for achieving greater outreach.

7.1 The Union Budget for 2009-10 stated that the SLBCs will identify the under-banked or unbanked areas in their respective States/ UTs and formulate an action plan for providing banking facilities to all these areas within the next three years. It has been announced by the Government in the Union Budget 2010-11 that there is a need to extend the geographic coverage of banks and improve access to banking services for which RBI will consider giving some additional banking licenses to private sector players and Non Banking Financial Companies who fulfill its criteria.

7.2 As per the information furnished by the Ministry, banks have employed 1,761 BCs covering 48,446 villages as in February, 2010. Of this public sector banks have employed 1,580 BCs, private sector banks have 180 BCs and foreign banks have 1 BC. Recently based on the recommendations of the Working Group set up for the purpose of reviewing the Business

Correspondent model, certain additional entities such as (i) individual kirana/medical/fair price shop owners (ii) individual public call office (PCO) operators (iii) Agents of small savings schemes of Government of India/ Insurance Companies (iv) individuals who own petrol pumps (v) Retired teachers and (vi) authorized functionaries of well known self help groups (SHGs) linked to banks have been permitted to be engaged by banks as BCs.

7.3 When the Committee desired to know that how the branch authorization policy will ensure opening of new branches in unbanked areas by the private players, the Secretary, Department of Financial Services, stated as below during his evidence:

> "The guidelines for new banks are yet to be framed. It is being thought upon by the RBI. RBI is yet to come up with the guidelines to be framed for new banks. We are awaiting the guidelines to be brought out for opening new banks. We think it will take a couple of months perhaps."

7.4 Queried on the measures being taken by the Government/RBI to increase the reach of banking facilities to rural and unbanked areas, the Ministry, in one of their written submissions, stated as under:

> **"**To provide adequate outreach of banking facilities, the following steps have been taken by the Government of India and Reserve Bank of India:-
>
> **(i) Branch Authorisation Policy** - RBI, vide its circular dated 1st December, 2009, has permitted all scheduled commercial banks, (excluding Regional Rural Banks) to open branches in Tier 3 to Tier 6 centres (with population upto 49,999 as per Census 2001) without having the need to take permission from RBI in each case, subject to reporting. Further banks have been permitted to open branches in rural, semi-urban & urban centres in the North Eastern States & Sikkim, without prior permission from the RBI. RBI has also relaxed its Branch Authorisation policy under which SCBs including are permitted to install offsite ATMs at centres / places identified by them without having the need to take permission from the RBI. This is expected to result in further expansion of banking network.
>
> **(ii) Use of Business Correspondents (BC) by banks** - The BC Model ensures a closer relationship between poor people and the organized financial system. Reorganizing this, in 2006, RBI

permitted banks to use the services of non-governmental organizations, micro-finance institutions, retired bank employees, ex-servicemen, retired government employees, Section 25 companies, and other civil society organizations as Business Correspondents in providing financial and banking services. In addition to the entities presently permitted, RBI has also permitted banks to appoint the following entities as BCs (i) Individual kirana/medical /fair price shop owners (ii) individual Public Call Office (PCO) operators (iii) Agents of Small Savings schemes of Government of India/Insurance Companies (iv) Individuals who own Petrol Pumps (v) Retired teachers and (vi) Authorised functionaries of well run Self Help Groups (SHGs) linked to banks.

Further, with a view to ensuring the viability of the BC model, banks (and not BCs) have been permitted to collect reasonable service charges from the customer, in a transparent manner under a Board-approved policy. It is expected that these measures would go a long way in scaling up the efforts towards financial inclusion.

(iii) **Mobile Banking** - Considering the penetration of mobile phones and their ever increasing usage, Mobile Banking guidelines have permitted the banks which are licensed and supervised in India and have a physical presence in India to conduct banking through mobile phones. For mobile banking transactions banks are now permitted by RBI to offer this service to their customers subject to a daily cap of

(iv) Rs.50,000/- per customer for both funds transfer and transactions involving purchase of goods/services. Mobile banking transactions up to Rs.1000/- can now be facilitated by banks without end-to-end encryption. The risk aspects involved in such transactions may be addressed by the banks through adequate security measures.

(v) **North-east Region** - The State Governments in the North-East Region have been requested to identify and facilitate availability of suitable premises or land preferably in the Block/Tehsil Headquarters for setting up a bank branch with necessary security and infrastructure including road and digital connectivity, housing facility for banking staff etc.

(vi) **Lead Bank Scheme** - The High Level Committee on Lead Bank Scheme constituted by RBI under the chairmanship of Smt. Usha Throart, Deputy Governor, Reserve Bank of India submitted its report on **20.8.2009**. RBI has accepted the recommendations of the Committee and issued a Notification in this regard on **27.11.2009**, whereby the Chief Executives of all State Level Bankers' Committee(SLBC) convener banks have been advised to constitute a sub- committee of District Consultative Committee (DCCs) to draw up a road map to provide banking services through banking outlets in every village having a population of over 2000 by

March, 2011. The banks have also been advised to draw up a monitoring review mechanism for periodic assessment and evaluation of the progress made in achieving the roadmap.

(vii) Use of Technology - In May 2007, banks were advised about the use of appropriate technology in their financial inclusion efforts in order to lower the transaction costs to make small ticket transactions viable. Banks were therefore encouraged to use ICT-enabled models for scaling up their financial inclusion efforts. Reserve Bank of India has, vide its circular dated 12th June, 2009, permitted Scheduled Commercial Banks to install Off-site ATMs at centres/places identified by them, without having the need to take permission from the Reserve Bank in each case**.** This would, however, be subject to any direction which the Reserve Bank may issue, including for closure/shifting of any such Off-site ATMs, wherever so considered necessary by the Reserve Bank. The banks should report full details of the Off-site ATMs installed by them in terms of the above general permission to the Regional Office concerned of Department of Banking Supervision/ DBOD, CO (in respect of Off-Site ATMs in Maharashtra and Goa) immediately after operationalisation and in any case not later than two weeks."

7.5 In response to a specific question on the status of implementation of recommendations of the various Committees, to enable increased reach of institutional finance, the Ministry stated inter-alia as follows in their written reply:

"(a)To implement the recommendation of the Committee on Financial inclusion that commercial banks (including RRBs) may provide access to credit to at least 250 hitherto excluded rural households at each of their existing rural and semi-urban branches, IBA had advised commercial banks and NABARD advised RRBs to provide access to at least 250 excluded rural households. Upto March 2009, more than 3.3 crore no-frill accounts had been opened by the banks.

(b)The Committee on Financial Sector Plan (2006) had specified banks to open branches in the 19 identified centres in North Eastern Region (NER) by March 2007. Banks have already opened branches in the above identified centres. The number of bank branches in NE Region increased by 59 or 3.06% from 1928 branches as on March 31, 2009 to 1987 as on June 30, 2009. Of the 59 branches, 56 branches were opened in Assam. Incidentally, 57% or 1127 of the 1987 branches in the NE Region are in Assam state. The number of ATMs has increased from 178 in March 2009 to 349 in June 2009. With 199 ATMs, the state of Assam has highest number as compared with other states in the NE Region. There has not been significant growth in the number of ATMs in Manipur and Mizoram as they have only 5 ATMs and 8 ATMs respectively up to the quarter ended June 2009. SBI has already been extending forex money changing facilities at two branches viz. Dawki and Dalu in Meghalaya.

The Committee also recommended that the banks can use BC/BF model effectively for increasing their outreach. Ideally, for the North Eastern Region, local community based organizations (CBOs) like Village Development Boards (VDBs), Anchal Samitis etc. may be used as business correspondents.

Status: Expanding the outreach through BC/BF model in NE Region as on June 30, 2009 is given below:

State	**No. of BC/BFs appointed by@**		**Total**
	Commercial banks	**RRBs**	
Assam	562	1	563
Arunachal Pradesh	3	-	3
Manipur	180	-	180
Meghalaya	4	-	4
Mizoram	2	-	2
Nagaland	-	-	-
Tripura	19	7	26
Total	**770**	**8**	**778**

@ Separate figures for BC & BF models- not available.

(c)On the basis of recommendations of the High Level Committee to review Lead Bank Scheme (2009) and as announced in Paragraph 147 of the Governor's statement on Second Quarter Review of the Monetary Policy 2009-10, the lead banks have been advised to constitute a Sub-Committee of the District Consultative Committees (DCCs) to draw up a roadmap by March 2010 to provide banking services through a banking outlet in every village having a population of over 2000, by March 2011. Such banking services may not necessarily be extended through a brick and mortar branch but can be provided through any of the various forms of ICT-based models, including through BCs.
RBI has, vide its letters dated 27.11.2009 and 26.02.2010, advised Chief Executives of all SLBC Convener banks to initiate action for

speedy implementation of the recommendations and also closely monitor the progress made by Lead Banks / commercial banks in this regard. The actions, inter-alia, include conduct of SLBC meetings regularly, constitutions of sub-committees of SLBCs for specific tasks, discuss, evaluate and monitor the progress made in Financial Inclusion as a regular agenda item in SLBC meetings, increased banking penetration for achieving 100% financial inclusion, greater role for private sector banks, preparation of district credit plan / annual credit plan, quarterly public meeting and redressal of grievances, capacity building /training / sensitized programs, effective liaison with State Government authorities, etc.

RBI has also circulated a performa for monthly monitoring of progress in the finalisation of Road Map and providing banking services in un-banked villages. Government has also requested all public sector banks to indicate the progress made in this regard to the Government on a regular basis."

7.6 However as per the action taken note furnished on the recommendations of the Committee in their 1st Report on the Demands for Grants (2009-10), there are still 375 underbanked districts and 99 unbanked blocks in the country which clearly points out the little progress has been made so far by private sector banks towards greater financial inclusion. The role of private sector banks in adding new rural household accounts as recommended by the Committee on Financial Inclusion has been very poor. The data given below, on opening of rural household accounts as furnished by IBA does not give a clear picture of total number of new rural household accounts added:

(As on 31.12.2009)

S. No.	Name of the Bank	No. of Rural/Semi Urban Branches	No. of Rural Household accounts opened as on 31.12.2009
1.	Karnataka Bank	184	11078
2.	Tamilnadu Mercantile	132	23642
3.	HDFC Bank	414	240767
4.	Axis Bank	243	100724
5.	Karur	34788	

	Vysya Bank		
6.	South Indian Bank		63105
7.	Kotak Mahindra Bank	56	466

IBA has reported that the Private Sector Banks have lesser number of branches in the rural areas and are not actively involved in handling Government sponsored schemes, disbursement of National Rural Employment Guarantee Act (NREGA) payments, etc."

7.7 When the Committee pointed out that the last year's budgetary allocation for setting up new banks in the rural areas was Rs. 100 crore, as against current year's provision of Rs. 50 crore, a representative of the Department of Financial Services, explained the reason as follows:

"That Rs.100 crore was earmarked by the Planning Commission for opening bank branches in un-banked blocks. We did a very exhaustive survey and most of the blocks are in North East and only 13 blocks are falling in non-North East States. We have taken it up with these States and requested them to provide some land, some space if possible, security or road, if it is needed and we have tied it up with them and these 13 blocks are being covered by some branches of some public sector banks. But in the North East, RBI is already running a viability gap funding scheme If some bank goes there and establishes a branch there, RBI in fact, compensates the banks for the loss if it it makes for the next three years. That scheme is already there. We thought that we would not be able to make use of this Rs.100 crore and next year the Government has reduced it to Rs.50 crore."

7.8 When the Committee asked whether extant infrastructure like pigmy/tiny deposit collectors involved by a large number of public and private sector banks have also been found suitable to be engaged under BC/BF model, the Ministry in their post evidence replies, stated as under:

"RBI has reported that though Pigmy/tiny deposit collectors are not presently figuring in the list of permitted entities who can be engaged as BCs of banks. However, based on the experience gained in respect of engaging the additional entities and the feedback from the stakeholders, RBI proposes to review the BC model again with a view to effecting changes, if any, required in the guidelines relating to BC model."

7.9 Further responding to a query on effectiveness of the banking correspondent model in increasing banking facility to all the areas, the Secretary, while tendering evidence, stated as under:

> On the business correspondents, it is a thing which is now launched for the financial inclusion programme. It has been going on in certain areas. The idea is that the business correspondent, whether it is an individual or a Kirana shop or petrol shop or LIC agent, instead of having a brick and motor branch in areas where the habitation is more than 2000 can be covered through this kind of a banking model which will take into account the deposit, credit, remittance through NREGA Programme and extending slowly into insurance and pension products. In that way the cost of banking can be reduced to a considerable extent… He operates as an addendum to the rural branch. So, he takes the responsibility… There are close to about 35,000 habitations in this country out of 600,000 villages having the physical bank branches. The idea in the financial inclusion is that all habitations having more than 2000 population must be provided banking facility through the business correspondent model by March 2012. We are making an assessment and we find that that number will be somewhere around 60,000 to 70,000 habitations which will have to be additionally provided with banking facility."

7.10 Asked whether the Government has evolved any system of incentives to the business correspondents/facilitators to provide such services, he informed the Committee as under:

> "Some kind of an incentive will be provided to him to deal with this product."

7.11 Further in a post evidence reply, the Ministry has informed as under on this issue:

> "with a view to improving the viability of the BC model, banks have also been permitted to collect reasonable charges in a transparent manner from the customers to whom banking services are provided through the BC model. As these changes in the guidelines have been effected very recently, it is expected that the implementation of BC model would be scaled up in the days to come."

7.12 When the Committee raised the issues of possible exploitation of BC/BF model giving rise to middleman, system of mobile banking etc. the Secretary stated as below:

> "We are also conscious of some of the many of these problems which Members have identified. Mobile banking is already part of the system. Now the question is that it is not that there is any one system that is going to be successful. It is going to be a mix of a number of things. Mobile banking is one such area and some banks have already started doing it. UCO Bank has started doing it in West Bengal and in certain other places. So, this has happened in a number of places. So, we cannot have any one system. We have to have a mix of these systems. We are confident that the banks would be in a position to motivate all these channels to see spread of banking culture. We will be in a position to do it. It will have some hiccups. I am not saying it will not but as we go along, we will be in a position to perfect this system."

C. Bank Lending to Agriculture and Weaker Sections

8.0 As per the extant guidelines, the domestic banks (both public and private sector banks) have to disburse 18 and 10 per cent of their Adjusted Net Bank Credit (ANBC) or credit equivalent amount of off-Balance Sheet Exposure, whichever is higher to agriculture and weaker sections respectively. The list of the banks which achieved the mandated target during the last three years is as under:

NAMES OF DOMESTIC SCHEDULED COMMERCIAL BANKS WHICH HAVE ACHIEVED THE PRIORITY SECTOR

LENDING TARGET AND SUB-TARGETS FOR LENDING TO AGRICULTURE SECTOR AND WEAKER SECTIONS

Agriculture lending target (18 per cent)						Weaker Sections lending target (10 per cent)					
Public Sector Banks			Private Sector Banks			Public Sector Banks			Private Sector Banks		
2007	2008	2009	2007	2008	2009	2007	2008	2009	2007	2008	2009
S B B J	S B I	S B I	Lakshmi Vilas Bank Ltd	Catholic Syrian Bank Ltd	Catholic Syrian Bank Ltd	S B I	S B I	S B I	Nil	Nil	Catholic Syrian Bank Ltd
S B Saurashtra	S B B J	S B B J	Sangli Bank Ltd	Dev. Credit Bank	Dhanalakshmi Bank Ltd	S B B J	S B B J	S B B J			Dhanalakshmi Bank Ltd
All 'Bad Bank	S B Hyd	S B Hyd	Yes Bank	Dhanalakshmi Bank Ltd	Icici Bank @	S B Indore	S B Hyd	S B Hyd			Indusind Bank
Andhra Bank	S B Indore	S B Indore		Nainital Bank	Indusind Bank	S B Mysore	S B Indore	S B Indore			J & K Bank
B O India	S B Mysore	All 'Bad Bank		Tamilnadu Merc. Bank	Lakshmi Vilas Bank Ltd	S B Patiala	S B Mysore	S B Mysore			
Indian Bank	State Bank Of Patiala	Andhra Bank		Yes Bank	Nainital Bank	All 'Bad Bank	S B Patiala	All 'Bad Bank			
I O B	S B Saurashtra	B O India			Tamilnadu Merc. Bank	Andhra Bank	All 'Bad Bank	Andhra Bank			
P N B	All 'Bad Bank	Canara Bank			Yes Bank	B O Baroda	Andhra Bank	B O India			
	Andhra Bank	Indian Bank				B O India	B O Baroda	Canara Bank			
	B O India	I O B				B O Maharashtra	B O India	Central Bank Of India			
	Indian Bank	P N B				Canara Bank	B O Maharashtra	Indian Bank			
	I O B	Syndicate Bk				Central Bank	Canara Bank	I O B			
	P N B	Uco Bank				Dena Bank	Central Bank	P N B			
	Syndicate Bk	Idbi Ltd. # $				Indian Bank	Dena Bank	Syndicate Bk			
						I O B	Indian Bank	Uco Bank			
						O B C	I O B	Idbi Ltd. # $			
						P N B	O B C				
						P & S Bank	P N B				
						Syndicate Bk	P & S Bank				
						Union Bank	Syndicate Bk				
						United Bank	Union Bank				
						Vijaya Bank	United Bank				
						Idbi Ltd. #	Uco Bank				
							Vijaya Bank				
							Idbi Ltd. # $				

8.1 It is seen that so far only 14 public sector banks and 8 private sector banks have been able to fulfill the mandate of 18 percent target of agricultural lending. However, with regard to weaker section lending, while the performance of public sector banks has fallen considerably with only 16 of the banks achieving the target vis-à-vis of 25 banks in the year 2008 in case of private sector banks only 4 of the banks have achieved the target in 2009.

8.2 During the course of oral evidence, while responding to a query on system of penalty on banks on incurring shortfall in lending targets, the Secretary, Department of financial services, stated as below:

> "The question is, if the targeted lending for priority sector lending is not reached or if the shortfall is taken away from the banks, that money goes to RIDF scheme, about which the hon. Members are familiar with, for refinancing for small scale sector, through NABARD for other kinds of programmes, through National Housing Bank for housing programmes and that goes at a much lower rate of interest, which means, at about 3-5 per cent, depending on the extent of shortfall from the priority sector target.
>
> To that extent the banks are penalised. Be it a public sector, private sector or foreign bank they have to make payments for the shortfall in targeted lending. To that extent, we are able to ensure that for certain important programmes like Bharat Nirman or RIDF we are able to get money. If direct lending is not done through indirect lending the shortfall is taken."

8.3 As per standing guidelines vide RBI Master Circular dated 1st July, 2009, on priority sector lending, domestic scheduled commercial banks having shortfall in lending to priority sector lending target are to be allocated amounts for contribution to the Rural Infrastructure Development Fund (RIDF) established with NABARD or funds with other financial institutions, as specified by the Reserve Bank.

8.4 The Committee raised the issue of effectiveness of disincentive mechanism of RIDF and four other funds viz. the Short Term Cooperative Rural Credit (STCRC) Fund, MSME Refinance Fund, MSME Risk Capital Fund and Rural Housing Fund in persuading banks in achieving mandated lending, to which the Secretary, during his deposition before the Committee replied as under:

> "The obligation to make good the shortfall still remains. The States take their time to draw up a plan and ask for the money. The money has to be given; RBI allocates the money to NABARD. NABARD is one component; NHB is one component, then SIDBI is another component. These people have to make plans draw the money through RBI. I am taking RIDF programme where the plans would have to be made by the States. The projects would have to be drawn up by the States. Then they get in touch with NABARD and NABARD gives them the money."

8.5 The Committee have been informed that on the basis of recommendations of the High Level Committee to review Lead Bank Scheme constituted by RBI, the RBI has advised Lead Banks to constitute a Sub Committee of the District Consultative Committees (DCCs) to draw up a roadmap by March 2010 to provide banking services through a banking outlet in every village having a population of over 2000, by March 2011. The services of BCs will also be used for extending banking facilities in such villages. The Lead Bank Scheme makes specified banks in each district the key instruments of local development by entrusting them with the responsibility of locating growth centres, assessing deposit potential, identifying credit gaps and evolving a co-ordinated approach to credit deployment in each district, in concert with other banks and credit agencies. The State Level Bankers' Committee (SLBC) and District Consultative Committee (DCC) have been recommended to a play major role in undertaking development activities. The Committee has also recommended Private sector banks to actively involve themselves with the DCC and Action plans where they have a presence and extend their services through permitted channels in under-banked and unbanked areas As at the end of March 2009, 26 banks (public and private sector) have been assigned lead responsibility in 622 districts of the country. However the metropolitan cities of Mumbai, Delhi, Kolkata, Chennai and certain Union Territories are not covered under the Scheme.

D. Non Performing Assets (NPAs) in Banks

9.0 The Net Non-Performing Assets (NPAs) of Public Sector Banks and Private Sector Banks for the past three years and also as on December 2009 is given as follows:

Net NPAs pertaining to Public and Private Sector Banks (in Rs. Crore)

Bank Group	Bank Name	March 07	March 08	March 09	December 09
Public Sector Banks	Allahabad Bank	470	418	437	149
	Andhra Bank	54	54	80	88
	Bank of Baroda	999	1009	970	422
	Bank of India	603	557	834	1457
	Bank of Maharashtra	277	254	272	649
	Canara Bank	1026	898	1350	1721
	Central Bank of India	878	1060	1063	638
	Corporation Bank	152	106	144	266
	Dena Bank	365	215	313	335
	IDBI Bank Limited	887	925	949	1554
	Indian Bank	100	96	81	68
	Indian Overseas Bank	244	339	946	1428
	Oriental Bank of Commerce	198	518	494	634
	Punjab & Sind Bank	77	67	78	103
	Punjab National Bank	801	754	264	842
	Syndicate Bank	391	621	631	835
	UCO Bank	1006	1092	813	657
	Union Bank of India	601	126	193	573
	United Bank of India	333	306	525	704
	Vijaya Bank	144	182	292	512
	State Bank of Bikaner & Jaipur	223	209	253	309
	State Bank of Hyderabad	59	160	227	97
	State Bank of India	5217	7252	8850	10201
	State Bank of Indore	159	134	193	318
	State Bank of Mysore	66	81	114	228
	State Bank of Patiala	217	197	247	527
	State Bank of Saurashtra	78	111	#	#
	State Bank of Travancore	268	268	188	294
Public Sector Banks		**15892**	**18009**	**20801**	**25610**
New Private	Axis Bank Ltd.	265	248	327	311
	Centurion Bank Of Punjab	142	267	#	#

Sector Banks	Development Credit Bank Ltd	44	27	100	136
	HDFC Bank Ltd.	203	299	628	533
	ICICI Bank Ltd.	1987	3476	4488	4178
	IndusInd Bank Ltd.	274	291	179	129
	Kotak Mahindra Bank Ltd.	217	276	397	468
	Yes Bank Ltd	0	8	41	16
Old Private Sector Banks	Bank of Rajasthan Ltd.	14	31	57	84
	Catholic Syrian Bank Ltd.	60	53	88	84
	City Union Bank Ltd.	37	45	61	72
	Dhanalakshmi Bank Ltd.	33	19	29	40
	Federal Bank Ltd.	65	43	68	137
	ING Vysya Bank Ltd.	114	103	206	292
	Jammu & Kashmir Bank Ltd.	194	204	270	55
	Karnataka Bank Ltd.	116	106	116	234
	Karur Vysya Bank Ltd.	16	17	26	24
	Lakshmi Vilas Bank Ltd.	57	60	65	91
	Lord Krishna Bank Ltd.	44	#	#	#
	Nainital Bank Ltd.	0	0	-1	0
	Ratnakar Bank Ltd.	10	6	5	9
	SBI Commercial & International Bank Ltd	1	0	0	0
	Sangli Bank Ltd.	15	#	#	#
	South Indian Bank Ltd.	78	34	134	57
	Tamilnad Mercantile Bank Ltd.	39	19	21	21
Private Sector Banks		**4021**	**5632**	**7305**	**6972**
* Data sourced from Off-site Returns submitted by banks (Audited and domestic)					
# Since merged with another bank					

The data on Net NPAs of banks for the last three years shows that Net NPAs as a whole have increased over the last three years with public sector banks reporting an increase from Rs. 15892 crore in March 2007 to Rs. 25610 crore in December 2009 and private sector banks showing increase from Rs. 4021 crore to Rs. 6972 crore in December 2009 over the same period. Except a few banks all public sector banks have shown rising NPAs consecutively in the last three years. However the performance of private sector banks has been comparatively better with only Development Credit Bank Ltd.,Kotak Mahindra Bank Ltd.,ING Vysya Bank Ltd., and Karnataka Bank Ltd. showing persistent rising trend of NPAs.

9.1 Explaining the reasons for rise in NPAs, the Ministry in their written reply, submitted as follows:

> "The rise in NPAs of the banks during 2008-09 was due to slippage of accounts in various sectors, mainly due to global economic recession, vagaries of monsoon affecting mainly the agricultural loans, apart from factors like bird-flu affecting poultry loans etc., thereby affecting the asset quality across the banks."

9.2 The Secretary, Department of Financial Services, further explained the reasons, in his deposition as follows:

> "Rs. 25,000 crore is because of the fact that there are stressed assets and economic downturn was there. The point remains that our NPAs, the gross NPAs and the net NPAs, have been coming down. We are including NPAs as one of the aspects which is looked into very seriously. Each Bank Board has to look into these assets which are going bad and see that what better monitoring can be done to see that these accounts are nursed and brought back to proper health. There is a separate set of marks allocated for reduction in the NPA. That has got a serious weight in terms of top managements' performance. At the Board level they are looking into some of these accounts and how these can be nursed and brought back into health."

9.3 Asked to detail the measures taken by RBI to arrest the growth of NPAs, the Ministry, in their written reply, furnished following:

> "RBI had taken regulatory measures to improve asset quality and better NPA management in banks from time to time, including the discussions held with banks on the Annual Financial Inspection Reports and also quarterly discussions. Various steps like, tightening of credit appraisal standards, introduction of prudential norms for improving the quality of assets of banking sector, proportionate reductions in riskier retails loans, utilisation of credit information about the history of borrowers available with Credit Information Bureau of India Ltd (CIBIL), corporate debt restructuring, sale of NPAs to asset reconstruction companies, etc are taken by the banks as part of better NPA management. Further, various means for recovery through legal course like Lok Adalats, Debt Recovery Tribunals (DRTs) etc and provisions under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 are being used."

Chapter IV

Department of Expenditure

A. Surrender of Unutilised Funds by the Ministries/Departments

10.0 The data on surrender of funds for the last three years show huge amounts of surrenders by various Ministries/Departments, details of which have been furnished in the Annexure. Briefly, the amount of surrenders vis-à-vis total allocation (Budgetary estimate and supplementary) work out to 1.59 per cent, 1.30 per cent and 2.40 per cent in the financial year 2006-07, 2007-08 and 2008-09 (provisional) respectively.

10.1 When the Committee desired to know the steps taken by the Ministry for ensuring proper and timely utilization of funds, the Secretary, Expenditure, while tendering evidence, stated as below:

> "One of the things which we tell them is that we will take the monthly spending. If they are not spending then we will divert the amount to other Departments which will spend more. That is why, we also review it in October-November. Many times we cut down on their REs so that they are forced to spend more in the earlier months. Otherwise, they will find that their allocations are slashed. Then, we have tried to give them as much additional powers as possible. But there is an insistence that they must get utilisation certificates to show that the money which has been released through the States or through para-Statal agencies – for instance, Sarva Shiksha Abhiyan is done through societies – is actually spent on the ground. The complaint that we are getting is not that the money is not available, but its actual impact is not there on the ground, that it is not really being spent at the field level. As the hon. Member was saying, although money was there, it has actually not been released till the last mile."

10.2 Asked about a mechanism to ensure that funds which are voted for particular purpose are utilised in time, the Secretary stated as follows:

> "Each Ministry has that responsibility. So, they have to ensure that they are able to utilise the funds and utilise them properly. What happens is that the first instalment is released without UCs. The second instalment is released only after the utilisation certificate is given. They have to ensure that the money has been utilised."

10.3 On the proactive policy measures taken by the Department to ensure that there is proper utilisation of funds, the Secretary informed as follows:

> **"**That is why, supposing in a certain scheme there is not enough spending and they want to divert it to another scheme, we are allowing reappropriations even till the last minute to see that the money is spent. As you very rightly said, Agriculture is very crucial. But, this year for instance, they have been able to do much better in terms of releasing money in time to the State Governments. I think, when the financial accounts for 2009-10 are laid, it will be seen that they have actually done better than in the previous years."

B. Decline in Capital Expenditure of the Central Government

11.0 The capital expenditure of the Central Government, both in absolute numbers and as percentage of total expenditure during the last five years is as given below:

Trend of Capital Expenditure of the Central Government

(Figures shown are net of Receipts and Recoveries)

Year	Absolute amount	%of total expenditure
2004-05	113,331	23%
2005-06	66,362	13%
2006-07	68,778	12%
2007-08	118,238	17%
2008-09 (provisional)	90,158	10%

11.1 Asked to furnish the reasons for massive decline in capital expenditure of the Government, the Secretary, Department of Expenditure, stated as below during the evidence:

> "a lot of capital expenditure is being done through State Governments. So, it is going under Revenue expenditure. for example, the Accelerated Irrigation Programme, AIBP, it is going as a transfer to the States, it is shown in revenue expenditure. But it is going for capital. Similar is the case with NREGA…"

11.2 On this issue, the Controller General of Accounts also informed the Committee as under:

> "Sir, the question which has been raised is with regard to the capital expenditure allocation. I would like to submit that in the Government of India Budget what is given as a grant either to the State Government or to a DRDA or to any other society or even to an autonomous institution – we show it only as a revenue expenditure. But it is the perception that in many of these schemes in the economy, there is creation of assets where it goes directly into the State Government. For example, if the State Government, again in turn, releases money to a panchayat or to a municipality, it will again give it only as a grant. The asset will get created in the accounts of the municipality or the panchayat.
>
> This problem will remain and this is a problem which is there in the budget of most Governments across the world. They all try to get some figure of asset creation outside the Budget, separately and then they try to work out. One of the ways in which it could be done is to distinguish between grants given for creation of assets and

grants given for meeting regular revenue expenditure. For example, salaries and things like that."

11.4 In a post evidence reply, the Ministry further explained the issue as below:

"The total revenue expenditure of the Central Government has grown in the last two years on account of implementation of 6th Central Pay Commission recommendations. Among other factors, this is one of the reasons why the total capital expenditure as a percentage of total expenditure has been impacted. Barring a few exceptions, the capital expenditure has increased in RE 2009-10 and BE 2010-11 as indicated in table below:-

(Rs. In crore)

Year	Total Expenditure	Revenue Expenditure	Capital Expenditure	Capital Expenditure as % of total exp.
2004-05	441428	384329	57099*	12.94
2005-06	505738	439376	66362	13.12
2006-07	583387	514609	68778	11.79
2007-08	678363	594433	83930@	12.37
2008-09	883956	793798	90158	10.20
2009-10 (RE)	1021547	906355	115192	11.28
2010-11 (BE)	1108749	958724	150025	13.53

* Excludes Rs. 32, 675 crore towards repayment to National Small Savings Fund under Debt Swap Scheme and Rs. 24,149 crore (RE 2004-05) towards Block loans to State Governments (Transactions under Debt Swap scheme was one-time transaction and Block loans to State Governments was discontinued pursuant to 12th Finance Commission recommendations).

@ Excludes Rs. 34,308 crore on account of transfer of RBI's stake in SBI.

The main reason for the declining trend of capital expenditure is due to the implementation of the recommendations of the Twelfth Finance Commission, by which the loans for State Plan schemes, which were earlier passed through Union Government budget are allowed to be raised directly by the States since 2005-06…Apart from Plan Capital Expenditure, presently Capital expenditure of the

> Government is largely accounted for under Defence Capital Expenditure, Loans to States (pass through of loans for externally aided projects), investment in financial institutions and Loans to Public Sector Enterprises."

11.3 On being asked whether there is any mechanism/system in place to monitor that the money transferred to States is really resulting in creation of capital, the Secretary, Expenditure, stated as follows during the course of evidence:

> "Sir, the Outcome Budgets which are prepared by various Ministries is a mechanism which was sought to be in place for showing how the money has been utilised and what outcomes have come.
> As the CGA mentioned, the new e-governance tracking system, which the planning Commission is putting and new independent evaluation office which they are planning to set up, are also two mechanisms for tracking what has actually happened at the ground level."

CHAPTER V

Department of Disinvestment

Utilisation of Disinvestment Proceeds

12.0 The disinvestment policy of the Government, as furnished by the Department of Disinvestment, in one of their written submission, is stated as below:

> "The disinvestment policy envisages development of 'People Ownership' of CPSEs to share in their wealth and prosperity while retaining ownership and control with Government. To achieve these objectives the Government has on 5th November, 2009 approved inter-alia, the under mentioned policy framework for disinvesting its equity in CPSEs that have positive net worth, no accumulated losses and that have recorded net profits in three preceding consecutive years:-
>
> (a) Listed CPSEs that do not meet the mandatory requirement of 10 per cent public shareholding are to be made compliant; and
> (b) Unlisted CPSEs are to list on Indian stock exchanges through public offerings out of Government's shareholding or issue of fresh shares or a combination of both.
> (c) Listed profitable CPSEs if need funds for their capital expenditure requirements may approach the capital market and that time Government may consider a part of its shareholding."

12.1 Asked to furnish details of the budgeted proceeds, proposed to be received by way of disinvestments in the year 2010-11, the Department of Disinvestment, in one of their written replies, stated as under:

> "The estimated collection from disinvestments proceeds for 2010-11 is Rs. 40000 crore and the Department will make all efforts to achieve the same."

12.2 When the Committee raised a query on total mobilisation, made so far by the Department, the Secretary, Disinvestment, while tendering his evidence, informed as below:

> "the mobilisation is Rs. 23,552 crore in the fiscal year which has just ended."

12.3 As per the Medium Term Fiscal Policy Statement, presented along with the Budget 2010-11, the disinvestments proceed has been used for reducing fiscal deficit, as evident in the following paragraph:

> "In spite of no significant increase in tax to GDP ratio and additional expenditure commitments arising on account of the 13th Finance Commission recommendations, the fiscal deficit with the help of disinvestment proceeds and reforms in expenditure management including subsidies has been reduced from 7.8 per cent in 2008-09 (including securities issued in lieu of subsidies to oil and fertiliser companies) to 5.5 per cent in BE 2010-11."

12.4 However, on this issue, the Department of Disinvestment, in their written submission stated as under:

> "The proceeds from disinvestments will be utilised for funding the capital expenditure under the social sector schemes identified by Planning Commission and Deparment of Expenditure."

12.5 The Corpus, interest income and utilization of proceeds of the National Investment Fund (NIF) is shown as below:

(Non Plan- Rs. In crore)

Year	Corpus of NIF	Utilisation/Allocation to Fund Managers	Income	Utilisation of Income
2005-06	-	-		
2006-07	-	-		
2007-08	1814.45	1651.00		
2008-09	1814.45	1814.45 (163.45 balance allocated)	84.81	
2009-10	1814.45	1814.45	209.24	185.90*

***** Allocated for Mid-Meal Scheme

12.6 Asked to explain the reasons for a small amount of funds being utilised, the Secretary, Department of Disinvestment, in his deposition before the Committee stated as below:

"The old NIF, the corpus is not to be spent. From April, 2009 to 31st March, 2012, the Government in view of the economic slow down has taken a decision that the disinvestment proceeds which come in during this period will be spent in full through the NIF for capital expenditure of social sector programmes. So what has been given in this chart is the old corpus which remains before April, 2009 and from that corpus the interest income has been shown in a column. That interest income is to be spent every year. Seventy-five per cent of that interest income is to be spent on social sector schemes. It has been spent on mid-day meal scheme and 25 per cent is spent on reviving PSUs or providing capital expenditure for Central sector PSUs. That is the scheme. So, from 2009-10 onwards, this is now being spent and disinvestment proceeds are going into six social sector schemes which are designated the Mahatma Gandhi National Rural Employment Guarantee Scheme, the Indira Awas Yojana, the Rajiv Gandhi Grammen Vidyutikaran Yojana, the JLNUURM, the Accelerated Irrigation Benefit Programme and the Accelerated Power Development Programme."

12.7 In response to a query on IPOs/FPOs of public sector undertakings, issued recently, the Department of Disinvestment, in a written reply, stated as below:

"The details of subscription of IPOs and FPOs by this Department are as under:

NHPC Ltd.	-	23.53 times oversubscribed (IPO)
OIL India	-	30.64 times oversubscribed (IPO)
NTPC Ltd.	-	1.30 times oversubscribed (FPO)
REC Ltd.	-	3.14 times oversubscribed (FPO)
NMDC Ltd.	-	1.25 times oversubscribed (FPO)

Both the IPOs were subscribed more than 20 times and the response was as expected. All the FPOs were also fully subscribed taking into account that the share price of these companies was already discovered by the market and the shares were available in the market before the FPO."

12.8 Further asked whether the returns through these offers justified their potential, the Department, in a post evidence reply stated as under:

“The Issue price of the five Public Offerings during 2009-10 is given as under:

Company (date of issue)	Issue Price (Rs.)	
	QIB and HNI	Retail and Employees
NHPC (August 2009)	36	36
OIL (September 2009)	1050	1050
NTPC (February 2010)	201	191
REC (February 2010)	203	193
NMDC (March 2010)	300	285

All the Public Offerings were fully subscribed at the prices mentioned in table above and Government realized an amount of Rs. 23552.97 crore. For fixing the Floor Price/Price Band for the Public offering the process is; the Advisers make a presentation before the High Level Pricing Committee comprising senior officials of various Departments and the CPSE concerned and recommend a price band based on market feedback, investor feedback, past and expected future performance of the company, comparison with peer group companies (such as Price to Book Value Multiples, Price to Earning Per Share Multiples EV/EBITDA), the listed price, if the share is already listed on the stock exchanges and the prevailing market conditions.

After the presentation and recommendations of the Advisers, the High Level Pricing Committee deliberates independently and recommends Floor Price/Price Band for the Issue for the consideration of the Empowered Group of Ministers (EGoM). The EGoM ultimately takes a final decision on the issue price.”

Part II

Recommendations/Observations

Utilisation of funds under the National Social Security Fund

1. The Committee find that although the Government has announced setting up of National Social Security Fund (NSSF) with a corpus of Rs. 1000 crore, the implementation aspect of the concept has not been well thought out, giving rise to the inevitability of the fund remaining unutilised. Having recognized the necessity of setting up a social security fund long back, absence of any action plan for a proper delivery mechanism gives rise to an apprehension that the purpose for which the fund has been established might not materialize well in time to benefit the unorganized labour. In the Committee's view, even if the fund is meant to be kept in public account, the Government should have taken a coordinated approach with all the concerned Ministries to devise the schemes/programmes under the fund. The Ministry of Finance thus seems to have adopted a casual approach while launching this scheme without making any assessment as to actual requirements. The corpus of the fund seems to have been arbitrarily decided without reference to ground realities. The Committee, therefore, desire that the Government should persuade other related Ministries/Departments to formulate the programmes/schemes in a time bound manner for proper utilization of the fund. Further, a coordination committee may be set up for this purpose in the Ministry of Finance to oversee the implementation of the scheme as early as possible. The Committee would like to know the progress made in this regard within three months.

Underutilisation of budgetary provisions for supporting infrastructure projects

2. The Committee find that budgetary provisions for supporting infrastructure projects through viability gap funding has always been on the higher side, despite little actual utilization. The primary reasons for shortfall in actual utilization is stated to be less demands by Sponsoring authorities and larger number of 'in- principal' approvals granted by the Department of Economic Affairs etc. The Committee are however surprised to note that these shortcomings are going unnoticed despite review of PPP projects by the Empowered Committee. Further, the receipt of negative grants in many projects shows the inadequacies in actual commercial/market evaluation, resulting in false assessment of the viability of the projects. Therefore, the Committee are of the view that the Empowered Committee needs to function more efficiently and adopt a more realistic approach, while assessing the viability of a project, so as to arrive at correct projections and more realistic budgetary estimates under this head to ensure greater efficiency in allocation of the resources.

Debt burden of the Government

3. It is a matter of serious concern for the Committee that the combined debt burden of the Centre and State Governments has now reached 80 per cent of GDP. They find that over the years, the debt burden of the Central Government manifests a high level of 56.7 per cent as budgeted for the year 2009-10, of which internal debt along with other

internal liabilities account for 54.4 per cent. This combined with States debt liabilities has reached a level of 80 per cent, exceeding the outer limit of 75 per cent, prescribed by the Twelfth Finance Commission. Thus, whatever achievement on the level of fiscal deficit that has been made so far by the Centre and States has been altogether negated by fiscal profligacy under-pinned by high debt, which undoubtedly would be unsustainable in the future. More alarming is the fact that around 36 per cent of the revenue of the Central Government is being spent on servicing of debt. This, in the view of the Committee, clearly indicates the inexorable path of debt trap towards which the country may be heading for, nearly mortgaging the future generations to present-day compulsions. Although, based on the projections of the Thirteenth Finance Commission, it may be possible to reverse this trend, however, the Committee apprehend that this might not be achievable, in view of the large proportion of revenue being expended for interest payment. The admission by the Finance Secretary during his deposition before the Committee about the difficulty to achieve the deficit targets as envisaged by the Finance Commission is also not a very encouraging sign. The Committee, therefore, desire that the Government should apprise them of the specific measures being taken in pursuance of the recommendations of the Thirteenth Finance Commission to contain the deficit while reducing the debt burden of the Government, both for the Centre and States.

Regulation of Unit Linked Insurance Products (ULIPs)

4. The Committee note that Unit Linked Insurance Products (ULIPs) which are in the nature of insurance cum investment scheme, were

introduced in 2001 and have since become a popular avenue for investment, with total value of sum assured under the scheme being Rs. 8.5 lakh crore as on 31st March, 2009. However, the Committee are surprised that despite ULIPs being an old product, the regulatory jurisdiction over these products is still hazy and not clearly defined, with both SEBI and IRDA claiming to be mandated to regulate the marketing and sale of these products. It is also apparent that while mutual funds, which are akin to ULIPs are well regulated in terms of entry loads, disclosure norms etc., this does not appear to be the case with ULIPs. The Committee, therefore, desire that the Ministry of Finance should take steps to ensure safeguarding the interest of investors by resolving the jurisdictional dispute and putting in place comprehensive regulations for ULIPs, incorporating the concerns of both SEBI and IRDA.

5. In this context, the Committee also note that key financial regulators appointed by Government being at loggerheads on an issue concerning large number of investors/subscribers is very unusual and extremely disquieting. The Committee note with concern that a ban has been imposed by SEBI on the ULIPs issued by 14 life insurance companies, which has been contradicted by IRDA by asking all these companies to continue with their business as usual, notwithstanding the order of SEBI. The Committee are of the view that the Ministry of Finance cannot remain a mute spectator to such posturings of one upmanship by its regulatory bodies. The Committee would, therefore, recommend that the Ministry of Finance must not only intervene immediately to resolve the deadlock in this matter, but also as a general policy, spell out in clear terms their

supervisory role vis-à-vis regulatory bodies under their jurisdiction. The Committee would like to be apprised of the steps taken in the matter within one month. In this context, the Committee also desire that the proposed Financial Stability and Development Council should be constituted early to address *interalia* such inter-regulatory issues.

<u>Under-utilisation of the corpus of Financial Inclusion Fund and Financial Inclusion Technology Fund</u>

6. The Committee note that though Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF) have been set up with the objective of promoting financial inclusion, their utilization towards achieving the same has been erratic. As on 31 January, 2010, while under FIF, out of Rs. 34.09 crore available, funds to the extent of Rs. 14.31 crore remained unutilized, the utilization under FITF has exceeded its corpus, since committed funds under this have exceeded the available funds. The reasons cited for meagre release out of the FIF include *interalia*, time lag between sanctions and release, project funding through the mechanism of viability gap funding, inability of RRBs/Cooperative banks to sink the projects due to lack of perspective and technically qualified staff, appointment of individuals as Banking Correspondents (BCs), RBI's requirement of banks to bring FIF/FITF proposals, role of cooperatives remaining unidentified etc. Further, inadequacy of corpus is also stated to be a big factor in limiting commitments. The Committee feel that for better utilization of these funds as well as speedier achievement of the goal of financial inclusion, it is imperative that projects are identified/tailor made before-hand. Off the shelf projects could be prepared by Lead Banks,

which would be readily available for implementation by the banks. Further, the role of Cooperative Banks and Regional Rural Banks have to be clearly established and their staff need to be trained and motivated to ensure effective implementation of schemes/projects. The Committee desire that Government should apprise them of the measures taken to resolve the problems as highlighted above. They also recommend the Government to correctly assess the requirement of funds for implementation of financial inclusion so as to make budget provisions in consonance with actual requirements.

Financial Inclusion

7. Financial Inclusion has received major policy focus in recent years. The Government has taken various measures like relaxation in branch authorization policy of RBI, increased use of banking correspondents/facilitators (BCs/BFs), mobile banking, greater role of lead banks in promoting financial inclusion, use of appropriate technology etc. However, these steps notwithstanding, 375 districs and 99 blocks in the country continue to be either under-banked or unbanked. While the Union Budget has announced the issuing of additional licences for private banks for extending geographic coverage of banking services, it is not clear as to how the potential of private players will be tapped to provide banking services in unbanked/under-banked areas, particularly keeping in view their poor track-record in this regard. The Committee, therefore, recommend that RBI should keep this aspect in mind and give topmost priority to the issue of greater financial inclusion and social banking while

granting licenses to private players who should be mandated to render the specified extent of banking services in rural and semi-urban areas.

8. Considering the unavoidable link between the opening of Branches by Commercial Banks in remote/un-banked areas and viability thereof, the proposal of banking correspondents (BCs)/banking facilitators (BFs) model with a view to bringing basic banking services, particularly collection of deposits, delivery of remittances etc. to the doorsteps of a large population residing in un-banked areas assumes significance. But entrusting implementation of the BC/BF model through totally untested medium like individual grocery (kirana)/medical/fair price shop owners, PCO operators, Petrol Pump owners, Retired Teachers etc. seems to be fraught with uncertainties. On the other hand, Banks, both in the public sector and in the private sector, have evolved over decades a unique model of Pigmy/Tiny Deposit Collectors who are well versed with the exact banking need of un-banked people vis-à-vis the Banks, but their prospect of contributing to the cause of "Financial Inclusion" is being neglected by Government. Keeping in view the primary need of ensuring evolution of dependable and trustworthy BCs/BFs model's network and broadbasing the concept of financial inclusion, RBI should focus on gainfully utilizing the Pigmy/Tiny Depositors, especially in view of their vast experience and proven trust worthiness. Further, the Committee recommend the Government to make a study on effectiveness of the BC/BF model in extending banking services to the unbanked areas and rationale of levying charges on customers of banking services in these areas and apprise them of the details thereof.

Bank Lending to Agriculture & Weaker Sections

9. The Committee notice that performance of commercial banks has remained pathetic with regard to agriculture and weaker sections lending as required under RBI guidelines, wherein 18 per cent of Adjusted Net Bank Credit (ANBC) is to be lent to agriculture and 10 per cent of ANBC is to be extended for weaker sections. In the year 2009, only 14 public sector and 8 private sector banks have been able to meet the agricultural lending target. This shows that banks are getting away with lower disbursement to agriculture with impunity. While the performance of public sector banks in case of weaker sections has been relatively better, private sector banks have shown very poor record. As per the information supplied by the Ministry, only 16 public sector banks and 4 private sector banks could achieve the desired percentage of lending last year.

10. The present mechanism of deterrence through Rural Infrastructure Development Fund (RIDF) does not seem to have the desired effect in persuading banks to achieve targeted level of lending. Therefore, the effectiveness of four similar funds (Short Term Cooperative Rural Credit Fund, MSME Refinance Fund, MSME Risk Capital Fund and Rural Housing Fund), is also doubtful. Further, through this system, direct credit to farmers is being replaced by indirect credit, which is also not forthcoming due to less demands from States for implementation of projects. Therefore, the Committee feel that an alternate system/mechanism/process needs to be formulated to enable the farmers to get the benefit of direct institutional credit. The Committee are of the opinion that instead of a penal system, the Government/RBI could examine

the system of incentives for banks who have achieved the targeted disbursements to agriculture and weaker sections.

11. The Committee were informed that Lead Banks have been assigned the task of ensuring financial inclusion for villages having population of over 2000 by March, 2011, as recommended by the High Level Committee to review the Lead Bank Scheme. The Committee are of the view that in addition to financial inclusion, the Lead banks may also be given additional responsibility to chalk out the action plan for overall development of villages.

Non Performing Assets in Banks

12. The Committee note with concern the increase in Net NPAs of banks over the last three years. It is seen that public sector banks as a whole have reported an increase in NPAs of around Rs. 10,000 crore during the period March 2007 to December 2009, while in the corresponding period , net NPAs of private sector banks has shown an increase of around Rs. 3000 crore, with the actual position showing a trend of decline in March, 2009 vis-à-vis December, 2009. It seems that while public sector banks have fallen short of lowering their NPAs, their private sector counterparts have fared better in this regard. Among public sector banks, 13 banks have shown rising NPAs since March 2008, while as many as 6 banks have shown consistent rise in net NPAs since March 2007. In contrast, new private banks have reported higher NPAs as against their old counterparts. Also, 4 new private banks have shown steady rise in NPAs since March, 2007. In view of the above, the Committee do not find merit in the contention that NPAs have risen only recently owing to extraordinary

economic circumstances. The Committee, therefore, would like to be apprised about the effectiveness of measures taken by Government/Reserve Bank of India in arresting the growth of NPAs. They would also like to be apprised on the role of DRTs in effecting settlement of debt.

Surrender of Unutilised Funds by the Ministries/Departments

13. The Committee find that huge amount of funds have been surrendered by various Ministries/Departments year after year. For instance, as per the figures furnished by the Ministry of Finance (Department of Expenditure), in the year 2008-09, a significant proportion of allotted funds have been surrendered by Ministries/Departments like Planning (84.37%), Land Resources (25.43%), Shipping (24.74%), New and Renewable Energy (27.82%), Earth Sciences (26.41%), Housing and Poverty Alleviation (21.31%), Atomic Energy (17.81%), Space (18.63%) and School Education and Literacy (11.41%). Such large percentage of surrender of funds from the budgetary allocations can only point to the fact that the concerned Ministries/Departments do not have adequate capacity to utilize the allotted funds, thereby leaving the programmes and schemes under their purview incomplete and unattended. The Committee, therefore, desire that the Government should focus on capacity-building of Ministries/Departments mandated to incur large expenditure on development. There should also be a deterrent mechanism to ensure that such large amount of funds are not routinely surrendered every year.

14. Further, the Committee also find that the total amount surrendered in the years 2006-07, 2007-08 and 2008-09 were Rs. 33111

crore, Rs. 31892 crore and Rs. 77271 crore respectively, which further shows that even if the funds remain unutilised, the allocation of funds are not reduced in the subsequent year. The Committee would, therefore, recommend that while making fresh allocations, the past amount of surrendered funds should be kept in consideration and subsequent allocations should be made only after assessing the progress made in the schemes/programmes. Further, from the information made available to the Committee, it is also not clear as to what extent these surrenders are due to economy measures or due to non implementation of the schemes/programmes. The Committee would, therefore, like to be apprised about the percentage of surrenders on account of savings/implementation of economy measures and the percentage of surrenders due to non utilisation of funds.

Decline in Capital expenditure of the Central Government

15. The Committee take serious note of the fact that capital expenditure of the Central Government has declined over the last five years, with only 10 percent of the total expenditure going towards creation of assets in the year 2008-09. The reason for this declining trend in capital formation is stated to be the change in classification of revenue and capital expenditure, under which transfers to States for implementation of various schemes through which assets are created, are shown as revenue expenditure in accounts of the Central Government. However, in the absence of any concrete mechanism to monitor as to the extent of these transfers actually materialising in asset creation in States, the Committee are not ready to accept the Ministry's contention with regard to fall in

capital expenditure of Central Government. Regardless of the technical classification of expenditure, the Committee would, therefore, expect the Government to ensure that the extent of capital expenditure made, actually results in corresponding asset creation. For this purpose, the Ministry of Finance must put in place an effective on-line monitoring system to gauge the creation of assets, particularly in rural development schemes.

Utilisation of Disinvestment Proceeds

16. The disinvestment of Central Public Sector Enterprises has been revived in the current year. In the year 2009-10, Initial Public Offers (IPOs)/Follow on Public Offers (FPOs) have been made in case of five public sector undertakings, thereby realizing Rs. 23552.97 crore. However, the policy of the Government regarding utilisation of disinvestment proceeds is not very transparent. On the one hand, the Government has stated in the Medium Term Fiscal Policy Statement that these proceeds have helped in cutting down fiscal deficit, while on the other hand, the Committee were informed that these proceeds will be utilised for capital expenditure under the specified social sector schemes. The Committee, therefore, recommend that the Government should clearly spell out the policy stance with regard to utilisation of disinvestment proceeds. They also desire that they be apprised of the details of the utilization of the amount of disinvestment proceeds realized so far including the extent of expenditure incurred on reviving sick PSUs.

Disinvestment Policy

17. Though the disinvestments of PSU shareholdings through IPOs/FPOs, have been stated to be oversubscribed, details of the

companies participating in these offers have not been divulged. The Committee apprehend the disinvestment programme, if carried out in the present manner, might have to be bailed out by Government owned companies.

18. The Committee are of the view that the disinvestment programme should not become dependent on public financial institutions. The Committee, therefore, recommend that the Government should review their disinvestment policy and make proper assessment of market conditions before deciding to offload the shares so as to realise the true value of undertakings in the larger interest of the nation.

New Delhi;
15 April, 2010
25 Chaitra, 1932 (Saka)

Dr. Murli Manohar Joshi,
Chairman,
Standing Committee on Finance.

Minutes of the Fifteenth sitting of the Standing Committee on Finance

The Committee sat on Tuesday, the 29th March, 2010 from 1100 hrs. to 1800 hrs.

PRESENT

Dr. Murli Manohar Joshi - Chairman

MEMBERS

LOK SABHA

2. Dr. Baliram (Lalganj)
3. Shri Sudip Bandyopadhyay
4. Shri Bhakta Charan Das
5. Shri Gurudas Dasgupta
6. Shri Nishikant Dubey
7. Shri Mangani Lal Mandal
8. Shri Magunta Sreenivasulu Reddy
9. Shri Manicka Tagore

RAJYA SABHA

10. Shri Raashid Alvi
11. Dr. K.V.P. Ramachandra Rao
12. Shri Vijay Jawaharlal Darda
13. Shri S. Anbalagan
14. Shri Mahendra Prasad
15. Shri Y. P. Trivedi

SECRETARIAT

1.	Shri A.K. Singh	-	Joint Secretary
2.	Shri R.K. Suryanarayanan	-	Deputy Secretary
3.	Smt. B. Visala	-	Deputy Secretary

Part –I
(1100 hrs. to 1300 hrs.)

WITNESSES

Ministry of Finance (Department of Economic Affairs and Expenditure)

1. Shri Ashok Chawla, Finance Secretary
2. Smt. Sushma Nath, Secretary, Expenditure
3. Dr. Kaushik Basu, Chief Economic Adviser
4. Shri C.R. Sundramurthy, Controller General of Accounts
5. Shri H.A.C. Prasad, Sr. Economic Adviser
6. Smt. Vilasini Ramachandran, Additional Secretary, Expenditure

7. Smt. L.M. Vas, Additional Secretary, Economic Affairs
8. Shri Shakti Kant Das, Joint Secretary, Budget
9. Dr. K. P. Krishnan, Joint Secretary, Capital Market
10. Shri Govind Mohan, Joint Secretary, Infrastructure & Investment
11. Dr. Anup K. Pujari, Joint Secretary
12. Shri Alok Sheel, Joint Secretary
13. Shri H. Pradeep Rao, Joint Secretary
14. Smt. Dakshita Das, Controller of Aids Accounts & Audit
15. Smt. Madhulika P. Sukul, Joint Secretary
16. Smt. Anjuli Chib Duggal, Joint Secretary
17. Smt. Meena Agarwal, Joint Secretary

2. The Committee heard the view of the representatives of the Ministry of Finance (Departments of Economic Affairs and Expenditure) in connection with the examination of the Demands for Grants (2010-11) of these departments. The major issues discussed related to National Social Security Fund (NSSF), underutilization of funds allocated for infrastructure financing through viability gap funding, Debt burden of the Government, reasons for huge surrender of funds by different Ministries/Departments, decline in capital expenditure of the Central Government, monitoring of asset creation by State Government etc. The Chairman directed the representatives to furnish written replies to the queries raised by Members at an early date.

The witnesses then withdrew.

A verbatim record of proceedings was kept.

Part-II

(1315 hrs. to 1425 hrs.)

WITNESSES

Ministry of Finance (Department of Financial Services)

1. Shri R. Gopalan, Secretary
2. Shri G.C. Chaturvedi, Addl. Secretary
3. Shri K.V. Eapen, Joint Secretary
4. Shri Alok Nigam, Joint Secretary
5. Smt. Ravneet Kaur, Joint Secretary
6. Shri Tarun Bajaj, Joint Secretary

<u>LIC</u>

Shri T. S. Vijayan, Chairman

IRDA

Shri A. Girdhar, Executive Director

RBI

Shri B. P. Vijayendra, Chief General Manager

NABARD

Dr. Prakash Bakshi, Executive Director

Ministry of Finance (Department of Disinvestment)

1. Shri Sumit Bose, Secretary
2. Shri Siddharth Pradhan, Joint Secretary
3. Smt. Minakshi Ghose, Joint Secretary
4. Shri H. P. Rao, Joint Secretary & Financial Adviser
5. Smt. Kalpana Mittal Baruah, Joint Secretary

3. The Committee heard the representatives of the Ministry of Finance (Departments of Financial Services and Disinvestment) in connection with the examination of the Demands for Grants (2010-11) of these departments. Major issues which came up for discussion included additional banking license proposed to be given to private players to enable expansion of banking, performance of foreign banks in priority sector lending, performance of business correspondents/facilitators model in extending credit facility in unbanked areas, shortfall in agriculture lending by public and private sector banks, effectiveness of Rural Infrastructure Development Fund (RIDF) in increasing Bank lending to agriculture, Non Performing Assets (NPAs) in banks, appropriateness of pricing and timing of Initial Public Offers (IPOs)/ Follow on Public Offers (FPOs) of some of the central pubic sector undertakings recently offered for disinvestment, utilization of proceeds of National Investment Fund (NIF) etc. The Chairman directed the representatives to furnish written replies to the points raised by Members at an early date.

The witnesses then withdrew.

A verbatim record of proceedings was kept.

Part –III
(1530 hrs. to 1700 hrs.)

4. X X X X X X X X X X

Part –IV

(1700 hrs. to 1800 hrs.)

5. X X X X X X X X X X

The Committee adjourned at 1800 hours.