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STANDING COMMITTEE ON FINANCE (2010-2011)

FIFTEENTH LOK SABHA

MINISTRY OF FINANCE

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

[Action taken by the Government on the recommendations contained in the Eleventh Report of the Standing Committee on Finance on Demands for Grants (2010-11) of the Ministry of Finance (Departments of Economic Affairs, Financial Services, Expenditure and Disinvestment)]

TWENTY-SIXTH REPORT

LOK SABHA SECRETARIAT
NEW DELHI

December, 2010/Agrahayana, 1932 (Saka)

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(2010-2011)

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Presented to Lok Sabha on 10 December, 2010
Laid in Rajya Sabha on 10 December, 2010

LOK SABHA SECRETARIAT
NEW DELHI

December, 2010/*Agrahayana,* 1932 *(Saka)*

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COMPOSITION OF THE STANDING COMMITTEE ON FINANCE (2010-2011)

Shri Yashwant Sinha — *Chairman*

MEMBERS

Lok Sabha

2. Dr. Baliram (Lalganj)
3. Shri Sudip Bandyopadhyay
4. Shri C.M. Chang
5. Shri Harishchandra Chavan
6. Shri Bhakta Charan Das
7. Shri Khagen Das
8. Shri Gurudas Dasgupta
9. Shri Nishikant Dubey
10. Shri Bhartruhari Mahtab
11. Shri Mangani Lal Mandal
12. Smt. Jayaprada Nahata
13. Shri Rayapati Sambasiva Rao
14. Shri Magunta Sreenivasulu Reddy
15. Vacant*
16. Shri Sarvey Sathyanarayana
17. Shri G.M. Siddeshwara
18. Shri N. Dharam Singh
19. Shri Manicka Tagore
20. Dr. M. Thambidurai
21. Shri Anjankumar M. Yadav

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*Shri Y.S. Jagan Mohan Reddy, MP has resigned on 29 November, 2010.

Rajya Sabha

22. Shri S.S. Ahluwalia
23. Shri Raashid Alvi
24. Shri Vijay Jawaharlal Darda
25. Shri Piyush Goyal
26. Shri Moinul Hassan
27. Shri Satish Chandra Misra
28. Shri Mahendra Mohan
29. Dr. Mahendra Prasad
30. Dr. K.V.P. Ramachandra Rao
31. Shri Y.P. Trivedi

SECRETARIAT

1. Shri A.K. Singh — *Joint Secretary*
2. Shri T.G. Chandrasekhar — *Additional Director*
3. Shri Ramkumar Suryanarayanan — *Deputy Secretary*

INTRODUCTION

I, the Chairman of the Standing Committee on Finance, having been authorised by the Committee, present this Twenty-Sixth Report on action taken by Government on the recommendations contained in the Eleventh Report of the Committee (Fifteenth Lok Sabha) on Demands for Grants (2010-11) of the Ministry of Finance (Departments of Economic Affairs, Financial Services, Expenditure and Disinvestment).

2. The Eleventh Report (15th Lok Sabha) was presented to Lok Sabha/ laid in Rajya Sabha on 19 April, 2010. Replies indicating action taken on all the recommendations contained in the Report were furnished by the Government on 23 August, 2010.

3. The Committee considered and adopted this report at their sitting held on 8 December, 2010.

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

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

NEW DELHI;
08 December, 2010
17 Agrahayana, 1932 (Saka)

YASHWANT SINHA,
Chairman,
Standing Committee on Finance.

CHAPTER I

REPORT

This report of the Standing Committee on Finance (Fifteenth Lok Sabha) deals with action taken by the Government on the recommendations/observations contained in their Eleventh Report on the 'Demands for Grants (2010-11)' of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment) which was presented to Lok Sabha and laid in Rajya Sabha on 19 April, 2010.

2. The Report contained 18 recommendations. Action taken notes have been received from the Government in respect of all the recommendations contained in the report. These have been categorised as follows:—

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

Recommendation Nos. 1,4,5,6,10,11,12,15,16,17 and 18

(Total 11)

(Chapter II)

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

(Total Nil)

(Chapter III)

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

Recommendation Nos. 2,3,7,8,9,13 and14

(Total 7)

(Chapter IV)

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

(Total Nil)

(Chapter V)

3. The Committee desire that the replies to the comments contained in Chapter I be furnished to them expeditiously.

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

Recommendation (Sl.No. 2)

Shortfall in utilization of fund under the head 'Assistance for Infrastructure Development – Lumpsum provision'

5. The Committee found that budgetary provisions for supporting infrastructure projects through viability gap funding had always been on the higher side, despite little actual utilization. The primary reasons for shortfall in actual utilization was 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 were of the view that the Empowered Committee should 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.

6. In their action taken reply, the Ministry has stated following:—

"The Viability Gap Funding (VGF) scheme is an enabling scheme to make the Public Private Partnership (PPP) projects commercially viable. Viability Gap funding is disbursed as equity support to the project. The quantum of VGF to be disbursed is determined through competitive bid process. To safeguard the public funds being invested in a PPP project, the funds are released, in proportion to the disbursal of loan by the Lead Financial Institution after financial closure of the project and after the private sector equity has been completely expended on the project.

While the Budget Estimates are formulated based on the anticipated requirement of the approved projects, actual utilization was influenced by a number of factors during the period 2006 when the scheme was introduced, to 2009, including:

(i) inexperience of the project sponsors in implementing PPP projects and lack of familiarity with the Scheme, which led to delays in completion of the bidding process ;

(ii) projects receiving premium (negative grant)/revenue share where VGF was not required when private sector was more optimistic regarding return on investments during the period of high economic growth; and

(iii) effect of global recession and slow down of Indian economy from mid 2008 resulting in dampening of investor interest in projects, prolonged bid process (as projects were rebid) and there were delays in achieving financial closure.

In all the above cases, the budget provisions were reviewed and revised at RE stage.

However, the Department undertakes regular review of the progress of the projects while formulating the requirement of VGF and only after due diligence/appraisal of project, approves VGF through the competent authority. As the investor/developer perception of the macro-economic conditions and expected revenue generation from the project also influences how a project is evaluated by the market, it is difficult to precisely estimate the actual VGF requirement before the completion of the bid process."

7. On the utilisation of the budgetary grant of Rs. 480.20 crore proposed for the current year, 2010-11 as on date, *i.e.* mid November, 2010, the Ministry of Finance (Department of Economic Affairs) in a subsequent reply informed *inter-alia* as follows:

"Budget Estimation for Viability Gap Funding (VGF) Scheme for the current year 2010-11 was Rs. 480.20 crore. The Revised Estimates have been proposed for Rs. 125.00 crore based on the requirements from Sponsoring Authority and past trend of disbursement. Till date (During the current Financial Year 2010-11) the disbursement of Viability Gap Funding (VGF) is Rs. 53.51 crore."

8. The Committee reiterate their concern on the continued underutilization of budgetary provisions for assisting Public-Private Partnership (PPP) infrastructure projects through Viability Gap Funding (VGF) since 2006-07. During the current year 2010 as well, the budgetary grant of Rs. 480.20 crore under the head of account was revised downwards to Rs. 125 crore at the stage of revised estimates of which only Rs. 53.51 crore has been disbursed as on date *i.e.* mid November, 2010. The Committee are not convinced with the reply of the Ministry which lists out factors such as inexperience of the project sponsors in implementing the PPP projects, negative grants in projects where private sector is more optimistic of returns, effects of global recession of 2008 which resulted in delays in financial closure of the

projects etc., as the reasons for underutilization of the Budget. It is essential to ensure that projects are not awarded to sponsors who may not be able to honour commitments and proper assessment is made of the potential of each project before deciding on funding through VGF. The Committee are of the considered view that the Empowered Committee definitely has a greater role to play in deciding on the PPP projects requiring help through VGF and a more realistic assessment is made of the budgetary requirement under the head of account. The Committee expect to be apprised of the action taken to this end.

Recommendation (Sl.No. 3)

Debt Burden of the Government

9. The Committee found that over the years, the debt burden of the Central Government remained at a high level. Debt ratio of 56.7 per cent was budgeted for the year 2009-10, of which internal debt along with other internal liabilities accounted for 54.4 per cent. This combined with States' debt liabilities, had reached a level of 80 per cent, exceeding the outer limit of 75 per cent, prescribed by the Twelfth Finance Commission. Further around 36 per cent of the revenue of the Central Government was being spent on servicing of debt. The Committee, therefore, desired that the Government 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.

10. The Ministry furnished following action taken reply on this issue, stated as under:

> "The total debt of the Central Government comprises the internal debt, external debt and other liabilities. Under internal debt the major components are market loans, treasury bills of various maturities, securities issued against small savings etc. The external debt is the borrowing of the government from bilateral and multilateral organizations. The other liabilities comprise the National Small Savings Fund, State Provident Funds and other Public Accounts liabilities. The increase in the debt is primarily on account of increased borrowings of the Government to Finance its developmental expenditure. The total liabilities (Internal debt, External Debt and other liabilities) of the Union Government have risen marginally to 57.0 per cent of the GDP in the

year 2009-10 (RE) after falling to 56.7 per cent in 2008-09 (Provisional) from a level of 61.6 per cent of the GDP in the year 2004-05.

Total debt of the Government during the period 2004-05 to 2010-11(BE) as per cent of GDP is given below:

Year end March	Internal Debt	Other liabilities	External Debt	Total
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 (provisional)	36.4	18.1	2.2	56.7
2009-10(RE)	37.9	16.8	2.3	57.0
2010-11(BE)	39.5	15.1	2.3	56.9

11. The 13th Finance Commission has assessed the finances of the Union and the States and specified a combined debt target of 68% to be met by 2014-15. For the Centre it has recommended that revenue deficit be eliminated and fiscal deficit be brought down to 3% of GDP by 2013-14. The Government has accepted these recommendations in principle.

A comparison of the fiscal targets given by the 13th Finance Commission and those given in the FRBM statements are as follows (all numbers are in percentage of GDP):

	2010-11	Target for 2011-12	Target for 2012-13
Fiscal Deficit (as per FRBM)	5.5	4.8	4.1
Fiscal Deficit (as per 13th Finance Commission)	5.7	4.8	4.2
Total liabilities (as per FRBM)	51.1	50.0	48.2
Total liabilities (as per 13th Finance Commission)	53.9	52.5	50.5

12. The Debt position reported in the FRBM Statements are prepared after the following adjustments in the debt numbers reported in the Receipt Budget: (i) NSSF loans to the States are excluded from the liability of the Central Government to avoid double counting, and (ii) external loans are calculated at current exchange rates (against the exchange rates at book value in the Receipt Budget). With these adjustments the total debt – GDP ratio in RE 2009-10 works out 51.5% and comes to 51.1% in BE 2010-11. The FRBM statement projects the fiscal deficit for 2011-12 and 2012-13 at 4.8% and 4.1% respectively. The corresponding numbers for the total debt — GDP ratio are 50.0% (2011-12) and 48.2% (2012-13) respectively. A comparison of the 13th Finance Commission and the Government's targets for debt for the next two years clearly shows that the Government is actually targeting a level even lower than that recommended by the 13th Finance Commission.

13. Interest payments as a percentage of Total Revenue Receipts over the last six years has been as follows:

Year	Interest payments as a percentage of Total Revenue Receipts
2004-05	41.5
2005-06	38.2
2006-07	34.6
2007-08	31.6
2008-09 (provisional)	35.6
2009-10 (RE)	38.0
2010-11 (BE)	36.4

It is true that Interest Payments have increased over the last two years due to increased borrowings undertaken to finance the counter-cyclical expansionary fiscal policy undertaken by the Government to combat the economic slowdown. However, with the return to fiscal consolidation in the current year, interest payments as a percentage of Total Revenue Receipts is likely to come down to 36.4 percent in 2010-11 (BE) from a level of 38 percent in 2009-10 (RE).

14. The Government has embarked on a fiscal consolidation process in the Budget 2010-11. The fiscal deficit of the Government has come down from a level of 6.7% of GDP in RE 2009-10 to 5.5% in BE 2010-11. The total debt is projected to come down slightly from 51.5% of GDP in RE 2009-10 to 51.1% in BE 2010-11. It has also been announced in the Budget Speech that "the Government would target an explicit reduction in its domestic public debt-GDP ratio". As announced in the Budget, a status paper giving detailed analysis of the debt situation and a roadmap for curtailing overall public debt will be brought out shortly. With all these measures and an abiding commitment to fiscal consolidation, the Government is confident of meeting the fiscal deficit and debt targets laid down by the 13th Finance Commission."

[Ministry of Finance (Department of Economic Affairs)
O.M. No. 12(6)-W&M/2010, dated 8.7.2010]

15. As per the action taken note, following the adjustments of National Small Savings Fund (NSSF) loans to States and current exchange rates for external loans, the total debt liability of the Central Government, as percent of GDP, works out to 51.5% in RE 2009-10 and 51.1% in BE 2010-11, which is lower than 53.9% projected by the Thirteenth Finance Commission for the year. Nevertheless, the Committee cannot help noting that no mention has been made in the action taken note of the total liabilities of the State Governments and consequent combined debt liabilities of the Central and State Governments. Moreover, the action taken note is also not clear in regard to measures undertaken or proposed for containing the combined Government debt, which at 80% of GDP in 2010-11 *i.e.* at the time of examination of the Demands for Grants was in excess of the maximum limit of 75% recommended by the Twelfth Finance Commission – a figure that is also far in excess of the targeted combined debt level of 68% to be achieved by 2014-15 as accepted by the Government on the basis of the recommendation of the Thirteenth Finance Commission. Though the Government intends to lower the revenue and fiscal deficits, concrete measures/mechanism for containing the deficits and reducing the debt liability have not been mentioned. The Committee apprehend that in the absence of concrete measures, the projections on containing the deficits and overall debt liability may remain unachievable. The Committee also express concern over the fact that the interest payment as a percentage of

revenue receipts, though estimated to go down marginally to a level of 36.4% in 2010-11, would nevertheless, continue to be on the higher side. The Committee, therefore, expect the Government to spell out the debt management strategy in clear and unambiguous terms and pursue the same in right earnest.

Recommendation (Sl.No. 7)

Financial Inclusion

16. While the Union Budget had announced the issuing of additional licences for private banks for extending geographic coverage of banking services, it was 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, recommended that RBI should keep this aspect in mind and give topmost priority to the issue of greater financial inclusion and social banking while granting licences to private players who should be mandated to render the specified extent of banking services in rural and semi-urban areas.

17. In the action taken note, submitted by the Ministry, following reply has been furnished:—

"As on June 30, 2010, there are 88,363 offices of Scheduled Commercial Banks (SCBs) in the country, out of which 32,603 (37%) bank offices are in rural areas, 21,011 (24%) in semi-urban areas, 18,268(20%) in urban areas and 16,481 (19%) in metropolitan areas. The number of branches in semi-urban and rural areas constitutes around 61% of the total number of branches in the country.

The Reserve Bank of India (RBI) has reported that average population per bank branch for commercial banks is reducing as given below:

As on	Average population per bank branch
31st March 2008	14,649
31st March 2009	14,153
31st December 2009	13,639
31st March 2010	13,400

An underbanked district is a district where the average population per branch office (APPBO) is more than the national average. At present there are 375 underbanked districts in the country. Presently, there are 89 unbanked blocks in the country out of which 80 unbanked blocks are in NE Region, 5 in the State of Jharkhand and 4 blocks in Jammu & Kashmir. Opening of branches in these unbanked blocks is being followed up with the State Level Bankers Committee (SLBC) Convenor Banks, RBI and State Governments. The Department of Financial Services has also requested the Home Ministry to take up the matter with the North-Eastern State Governments to provide premises in Government buildings preferably near the local Police Stations. The State Governments have also been urged to avail benefits under the RBI's Viability Gap Funding Scheme for this purpose. The scheme provides financial support to banks by the Reserve Bank for setting up banking facilities *viz.*, currency chests, extension of foreign exchange and Government business facilities at "agreed" centers in the North-Eastern Region, which are not found to be economically viable by banks. This Scheme requires the State Governments to make available necessary premises and other institutional support. The Reserve Bank of India, as its contribution, would bear the one time capital cost and recurring cost per annum for a limited period of five years as per the lowest bid offered by the Bank.

Several other initiatives have also been taken by the Government of India and RBI to extend the reach of banking to rural and semi-urban areas:

(a) Simplified branch authorisation

(b) Relaxed KYC norms for opening bank accounts

(c) No frills accounts

(d) General Credit Cards – providing credit facility, in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned

(e) Business Correspondents/Business Facilitators

(f) Core Banking Solution (CBS) in all RRBs

(g) Scaling up IT

(h) Mobile Banking

(i) Special package for North-Eastern States

(j) "Financial Inclusion Fund" (FIF) and "Financial Inclusion Technology Fund" (FITF) for meeting the cost of developmental and promotional interventions and the cost of technology adoption for ensuring financial inclusion.

(k) Each SLBC convenor has been asked to set up a credit-counselling centre in one district as a pilot, and extend it to all other districts in due course

(l) SHG bank linkage programme

(m) Roadmap for Financial Inclusion.

The Finance Minister in his Budget Speech 2010-11 stated that in order to reach the benefits of banking services to the 'Aam Aadmi', the Government in consultation with the Reserve Bank of India (RBI), has decided to provide appropriate banking facilities to habitations having population in excess of 2000 (as per 2001 census) by March, 2012. These services will be provided using the Business Correspondent and other models with appropriate technology back up. The roadmaps for Financial Inclusion Plans (FIPs) for providing banking facilities in villages having population over 2000 have been finalized by most banks/ SLBCs by 31 March, 2010. These plans are being reviewed by the RBI in detail with the Banks prior to operationalization…

…The number of habitations having a population of over 2000 (as per the 2001 census) proposed to be covered under these financial inclusion plans, as per the information received from the SLBC convenor banks is approximately 72,300 . All the above efforts are being monitored closely to ensure that the reach of banking services can be extended rapidly to the hinterland.

Opening New Bank branches: RBI has recently invited suggestions and comments, by (September 30, 2010), on the following aspects delineated in the Discussion Paper regarding opening/licensing of new bank branches:

1. Minimum capital requirements for new banks and promoters contribution

2. Minimum and maximum caps on promoter shareholding and other shareholders

3. Foreign shareholding in the new banks

4. Whether industrial and business houses could be allowed to promote banks

5. Should Non-Banking Financial Companies be allowed conversion into banks or to promote a bank

6. Business model for the new banks.

RBI after receiving feedback, comments and suggestions on the possible approaches discussed in this paper and detailed discussions with the stakeholders, comprehensive guidelines for licensing of new banks would be framed and applications invited for setting up new banks."

18. As seen from the action taken note, as many as 375 districts in the country continue to be under banked and 89 blocks unbanked of which a majority *i.e.* 80 blocks are in the North-Eastern region. This is despite the number of measures taken by the Government and RBI to extend the reach of banking *i.e.* simplified branch authorization policy, viability gap funding scheme of RBI, relaxed know your customers (KYC) norms, introduction of basic banking 'no-frills' account, issue of General Purpose Credit Cards (GCCs), use of Banking Correspondents/Facilitators, implementation of Core Banking Solution (CBS) in all RRBs, scaling up IT initiatives for financial inclusion, mobile banking, setting up Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF), setting up Financial Literacy and Credit Counseling Centers by SLBC convener banks and SHG-Bank Linkage Programme etc. More seriously, the action taken note is elusive in regard to the specific recommendation of the Committee that RBI should give topmost priority to the issue of financial inclusion and social banking while granting new bank licenses. The Committee would reiterate that the issue of extending outreach of banking should be given utmost priority while granting new licences. The Committee expect to be apprised of the action taken in this regard.

Recommendation (Sl.No. 8)

Banking Correspondents (BC)/Banking Facilitators (BF) model

19. The Committee were of the opinion that 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. seemed to be fraught with uncertainties. On the other hand, Banks, both in the public sector and in the private sector, had 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. Therefore RBI should focus on gainfully utilizing the Pigmy/Tiny Depositors, especially in view of their vast experience and proven trust worthiness. Further, the Committee recommended 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.

20. In their action taken reply, the Ministry stated as below:

"The Finance Minister in his Budget Speech 2010-11 stated that in order to reach the benefits of banking services to the 'Aam Aadmi', the Government in consultation with the Reserve Bank of India (RBI), has decided to provide appropriate banking facilities to habitations having population in excess of 2000 (as per 2001 census) by March, 2012. These services will be provided using the Business Correspondent and other models with appropriate technology back up.

The number of habitations having a population of over 2000 (as per the 2001 census) proposed to be covered under these FIPs, as per the information received from the SLBC convenor banks is approximately 72,300. The Banks have already initiated action adopting various technologies and models across the country.

Since January 2006, the Reserve Bank has permitted banks to utilise the services of Non-Governmental Organizations (NGOs), micro-finance institutions (other than Non-Banking Financial Companies) and other civil society organisations as intermediaries in providing financial

and banking services through the use of business facilitator and Business Correspondent (BC) models. The BC model allows banks to do 'cash in-cash out' transactions at a location much closer to the rural population, thus addressing the last mile problem.

From April 2010, the ambit of the BC model has been widened to engage any individual as BC by banks. With a view to ensuring the viability of the BC model, banks have been permitted to collect reasonable service charges from the customer, in a transparent manner under a Board-approved policy.

The BC Model ensures a closer relationship between poor people and the organized financial system. As in March 2010, banks have reported employing 2301 BCs covering 53382 villages. Of this, public sector banks have reported employing 2128 BCs, private sector banks 172 BCs and foreign banks 1 BC. Further, in the annual Policy of the Reserve Bank for the year 2010-11, it has been announced that any individual may be employed as BC by banks, including Common Service Centres (CSCs), subject to bank's comfort level and their carrying out due diligence. RBI has since liberalized the list of entities who could be appointed as BCs and permitted banks to use the services of Non-Governmental Organizations, Micro Finance Institutions, Retired Bank Employees, Ex-servicemen, Retired Govt. Employees etc. in the category of BCs. The Banks have largely used services of companies listed in Section 25 and other civil society organizations as Business Correspondents in providing financial and banking services. These companies may appoint their sub agents to execute the job. If the model of Pigmy / Tiny Deposit Collectors fit in any of these models, the banks are free to utilize their services wherever these are found feasible/ operable. Further the banks have freedom to choose whatever model suits them according to their need in fulfilment of the objective of providing banking services and levy a suitable charge(s).

The Ministry of Finance has been urging State Governments to provide the necessary support required for extending banking services to the rural hinterland. State Governments have also been requested to route payments of all government schemes and programmes through banks."

21. The Committee feel constrained to note that the action taken note is silent on the recommendation made for conducting a study on the effectiveness of the Banking Correspondents (BCs)/ Banking Facilitators (BFs) model in extending banking services, as also the issue of the rationale of levying charges on banking services provided through this model on customers in unbanked areas. The Government has merely chosen to furnish figures on the total number of Banking Correspondents (BCs) employed by banks (2301), of whom a majority are employees of Public Sector banks (2128), with the private sector and foreign banks having employed only 172 and 1 BCs respectively. The action taken note is also evasive in regard to the emphasis made by the Committee on giving preference to Pigmy/Tiny Depositors for furthering the cause of 'Financial Inclusion'. It is also apparent from the action taken note that the BC model has not found much favour with the private sector and foreign banks. The Committee, once again emphasise the need for evaluating this model as a channel of banking covering *inter-alia*, the norms for engaging Banking Correspondents, the number of accounts added, business generated through this model till date etc. The Committee expect to be apprised of the action taken to this end at an early date.

Recommendation (Sl.No. 9)

Bank lending to Agriculture and Weaker Sections

22. The Committee noticed that performance of commercial banks had remained pathetic with regard to agriculture and weaker sections lending as required under RBI guidelines which showed that banks were getting away with lower disbursement to agriculture with impunity. While the performance of public sector banks in case of weaker sections had been relatively better, private sector banks had 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.

23. In their action taken reply, the Ministry stated following:

"The RBI guidelines on priority sector lending require domestic commercial banks to lend 40 per cent of their Adjusted Net Bank Credit (ANBC) with sub-targets for lending to agriculture (18 per cent) and weaker sections (10 per cent). The target achieved by Public Sector

Banks under priority sector lending and agriculture sector lending (as on the last reporting Friday of March) for the three years is as under:

Advances to the Priority Sectors by Public Sector Banks

(Rs. in crore)

	Sector	March 2007	March 2008	March 2009
I.	Agriculture	2,02,614	2,49,397	2,98,211
	Percentage	(15.4)	(17.5)	(17.2)
II.	Weaker Section	94,285	1,26,935	166,843
	Percentage	(7.2)	(9.3)	(9.62)
III.	Total priority sector advances	5,21,376	6,10,450	7,20,083
	Percentage	(39.7)	(44.7)	(42.5)
IV.	Net Bank Credit	13,13,840	13,64,268	16,93,437

Source: RBI Figures in brackets are percentage achievement.

It may be seen that the performance of public sector banks has improved. In the year 2006-07, the agriculture sector advances were 15.4%, this was increased to 17.25% in the year 2008-09. Weaker Section advances have increased from 7.2% in the year 2006-07 to 9.62% in the year 2008-09. The overall priority sector advances increased from 39.7% in 2006-07 to 42.5% in 2008-09.

Advances to the Priority Sectors by Private Sector Banks as on the last reporting Friday is as under:

(Rs. in crore)

	Sector	March 2007	March 2008	March 2009
	1	2	3	4
I.	Agriculture	52,034	58,567	76,062
	Percentage	(12.7)	(15.4)	(15.9)

	1	2	3	4
II.	Weaker Section	5,229	7,228	15,844
	Percentage	(1.55)	(2.10)	(3.31)
III.	Total Priority sector advances#	1,44,549	1,64,068	1,90,207
	Percentage	(42.9)	(47.8)	(46.8)

Source: RBI Figure in Brackets are percentage achievement.

It may be seen that the performance of private sector banks has also improved. In the year 2006-07, the agriculture sector advances were 12.7%, this has increased to 15.7% in the year 2008-09. Weaker Section advances have been increased from 1.55% in the year 2006-07 to 3.31% in the year 2008-09. The overall priority sector advances increased from 42.9% in 2006-07 to 46.8% in 2008-09.

The shortfall in the agriculture lending/priority sector/weaker sections of the scheduled commercial banks is being utilized for the benefit of the rural areas and the weaker section through different funds like the Rural Infrastructure Development Fund (RIDF), Short Term Cooperative Credit (STCRC) Refinance Fund, Micro, Small and Medium Enterprises (MSME) Refinance Fund, Rural Housing Fund, etc. The allocation made by RBI from the lending shortfall to these funds for the last two years is as under:

Amount allocated in the last two years

(Rs. in crore)

Name of the Fund	2008-09	2009-10
Rural Infrastructure Development Fund (RIDF)	14,000	14,000
Bharat Nirman Programme	4,000	6,500
Short Term Cooperative Credit (STCRC) (Refinance) Fund 2009-10	5,000	5,000
Micro, Small and Medium Enterprises (MSME) Refinance Fund, 2009-10	4,000	4,000
Rural Housing Fund, 2009-10	1,200	2,000
Total	28,200	31,500

The Rural Infrastructure Development Fund (RIDF) has been getting allocations in the successive Union Budgets and NABARD has partnered with various State Governments in the creation of rural infrastructure. Over the years, the coverage under RIDF has been made more broad based in each tranche and at present, a wide range of 31 sectors under RIDF XV (2009-10) are being financed. The aggregate allocations under RIDF have reached the level of Rs. 1,34,000 crore.

Further, a separate window under RIDF has been created for partly funding the rural roads component of the Bharat Nirman Programme Pradhan Mantri Gram Sadak Yojana. So far, Rs. 18,500 crore has been allocated from the shortfall of priority sector lending for this programme.

In view of above it may be observed that the shortfall in priority sector lending by banks is being utilized by the Government of India for various infrastructure projects and other developmental activities in the rural areas and these funds are serving a very useful purpose for the rural and agricultural economy."

24. The Committee had expressed their serious concern over the fact that banks, particularly from the private sector were getting away with impunity for not meeting the mandated level of priority sector lending, mainly to the agriculture sector. The submission made in the action taken note that 'shortfall in priority sector lending by banks is being utilized by the Government for various infrastructure projects and other developmental activities in the rural areas' by allocating the shortfall amounts to 'rural development oriented funds' is neither tenable nor acceptable. While around Rs. 31500 crore of the shortfall in the banking sector lending to agriculture in the preceding two years is stated to have been allocated to three funds *i.e.* Short Term Cooperative Credit Refinance Fund (STCRC), Micro, Small and Medium Enterprises Refinance Fund (MSME) and Rural Housing Fund besides the Rural Infrastructure Development Fund (RIDF), the action taken note neither contains details of the off-take of the accruals to the funds nor the nature of assets created by utilizing the accruals from the funds. The Committee expect to be apprised of the details of the off-take of the accruals from these four funds in the preceding three years.

25. The Committee also note that despite the policy measure of allocating the shortfalls in lending to the 'earmarked funds', banks,

particularly from the private sector continue to fall short of the mandated lending targets. For instance, the private sector banks lending to agriculture sector has been to the extent of only 15.9% in 2009 with 3.31% extended to weaker sections, which is a matter of serious concern. On an even more serious note, the Committee wish to point out that this measure of allocating the lending shortfalls to the earmarked funds cannot be a viable alternative to direct lending to agriculture sector. The Committee would like to be apprised of the effectiveness of the additional funds in prompting banks to meet the stipulated agriculture lending targets. Increasing direct agriculture advances being an urgent need, the Committee reiterate that the Government/RBI should ensure that the banks achieve the targeted lending to agriculture and weaker sections.

Recommendation (Sl.Nos. 13 & 14)

Surrender of Unutilised funds by Ministries/Departments

26. The Committee found that huge amount of funds were being surrendered by various Ministries/Departments year after year. Such large percentage of surrender of funds from the budgetary allocations only pointed to the fact that the concerned Ministries/Departments did not have adequate capacity to utilize the allotted funds, thereby leaving the programmes and schemes under their purview incomplete and unattended. The Committee, therefore, desired 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.

27. Further even if the funds remained unutilised, the allocation of funds were not reduced in the subsequent year. The Committee therefore, recommended 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 was also not clear as to what extent these surrenders were due to economy measures or due to non-implementation of the schemes/programmes. The Committee therefore, desired 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.

28. Following action taken reply has been furnished by the Ministry:

"The expenditure position of Union Government in the year 2009-10 is estimated as indicated below:—

(Rs. in crore)

	2009-10	
	Budget Estimate	Revised Estimate
Non-Plan Expenditure	695689	706371
Plan Expenditure	325149	315176
Total Expenditure	1020838	1021547

During the mid-year review of the budgetary allocation of all Ministries/ Departments at the time of finalization of Revised Estimates for the financial year, the expenditure position of all Ministries/Departments is taken into account. The budgetary allocations of those Ministries/ Departments, which have not kept pace upto September of the financial year, are scaled down keeping in view the absorptive capacity of the administrative Ministry/Department concerned in the remaining part of the financial year. The savings so effected are re-deployed to other Ministries/Departments where additionalities are sought. The mid-year review is aimed at rational distribution of scarce resources of Government. As a result, Ministries/Departments, whose budgetary allocations are scaled down, are required to surrender the savings identified to the Ministry of Finance.

The budgetary allocations of the following Ministries/Departments were scaled down during 2009-10 consequent upon the mid-year review after taking into account the pace of expenditure and the absorptive capacity of the Ministry/Department concerned:—

1. Department of Animal Husbandry, Dairying and Fisheries
2. Atomic Energy
3. Ministry of Coal
4. Department of Commerce

5. Department of Industrial Policy & Promotion
6. Department of Posts
7. Department of Information Technology
8. Department of Consumer Affairs
9. Department of Food and Public Distribution
10. Ministry of Culture
11. Ministry of Earth Sciences
12. Ministry of Environment & Forests
13. Department of Economic Affairs
14. Department of Financial Services
15. Department of Expenditure
16. Ministry of Food Processing Industries
17. Department of Health & Family Welfare
18. Department of Heavy Industry
19. Department of Public Enterprises
20. Ministry of Home Affairs
21. Police
22. Other expenditure of Ministry of Home Affairs
23. Ministry of Housing and Urban Poverty Alleviation
24. Department of School Education Literacy
25. Department of Higher Education
26. Ministry of Information & Broadcasting
27. Ministry of Labour & Employment
28. Ministry of Micro, Small and Medium Enterprises
29. Ministry of Mines
30. Ministry of New and Renewable Energy
31. Ministry of Panchayati Raj

32. Ministry of Planning
33. Ministry of Power
34. Department of Rural Development
35. Department of Land Resources
36. Department of Drinking Water Supply
37. Department of Science & Technology
38. Department of Scientific and Industrial Research
39. Department of Bio-Technology
40. Department of Shipping
41. Department of Road Transport and Highways
42. Department of Space
43. Ministry of Statistics and Programme Implementation
44. Ministry of Steel
45. Ministry of Tourism
46. Ministry of Tribal Affairs
47. Lakshadweep
48. Ministry of Water Resources

Apart from the above, there are other reasons for surrender of savings. One of the principal reasons is that re-distribution of savings available in one section to another section of the Grant like from Capital to Revenue section or *vice-versa* or from Voted to Charged section or *vice-versa*, which is done through the approval of Parliament, result in surrender of savings technically. Such savings are also taken as unspent provision, which is actually not the position, since these funds are deployed elsewhere as per requirements.

As regards capacity-building of Ministries/Departments, Finance Minister and Secretary, Department of Expenditure hold separate meetings with Financial Advisers of all Ministries/Departments during the course of the year, wherein the need to accelerate the expenditure is emphasized and at the same time they are advised to exercise caution and avoid making excessive projection in their budget proposals. The detailed guidelines relating to the methodology of preparing the detailed

budget estimates are also enumerated elaborately in the General Financial Rules and in Budget Circular issued annually. As regards percentage of surrenders on account of savings/implementation of economy measures and the percentage of surrenders due to non-utilization of funds, the surrenders effected through economy measures are subsumed in the overall savings effected through mid-year review and details of such savings through economy measures are not maintained centrally."

29. The Committee find from the action taken note that steps such as mid-year reallocation of resources on the basis of the absorptive capacity of the Ministries/Departments after mid-year review have not prevented funds remaining unutilized/savings effected in the case of number of Ministries/Departments. Savings have also been shown to be on account of factors such as redistribution of funds from capital to revenue section or *vice-versa* etc., which is not reflected properly in the accounting system. This calls for reviewing the accounting system with a view to overcoming the shortcomings and reflecting savings and expenditure correctly. Furthermore, no specific reply has been furnished with regard to the emphasis made by the Committee on reviewing the budgetary planning process with a view to building an effective deterrent mechanism so as to prevent surrenders every year. It would be necessary to ensure that Ministries are dissuaded from delaying expenditure, projecting expenditure in excess of actual potential, and also delaying surrenders. Also, while regular meetings are stated to be held between the Finance Minister and Secretary, Department of Expenditure with Financial Advisors of different Ministries/Departments, the effectiveness of such mechanisms in impacting funds remaining unspent does not seem to be reflected.

30. What the Committee also find extremely surprising to note from the reply is the fact that the Ministry has no clear picture on the surrenders/savings effected on account of economy measures as distinct from savings owing to non-implementation of schemes/ programmes. This information being of vital importance in enabling efficient expenditure management, the Committee would recommend that the Government establish a mechanism for collecting and maintaining information on savings/surrenders on account of delays in project/programme implementation etc. as distinct from savings on account of economy measures.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS THAT HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation (Para No. 1)

The Committee found that although the Government had announced setting up of National Social Security Fund (NSSF) with a corpus of Rs.1000 crore, the implementation aspect of the concept had not been well thought out, giving rise to the inevitability of the fund remaining unutilised. Having recognised the necessity of setting up a social security fund long back, absence of any action plan for a proper delivery mechanism gave rise to an apprehension that the purpose for which the fund had been established might not materialise well in time to benefit the unorganised labour. In the Committee's view, even if the fund was 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 seemed to have adopted a casual approach while launching this scheme without making any assessment as to actual requirements. The corpus of the fund seemed to have been arbitrarily decided without reference to ground realities. The Committee, therefore, desired that the Government should persuade other related Ministries/Departments to formulate the programmes/schemes in a time bound manner for proper utilisation of the fund. Further, a coordination committee should be set up for this purpose in the Ministry of Finance to oversee the implementation of the scheme as early as possible. The Committee desired to know the progress made in this regard within three months.

Reply of the Government

Recognising need for providing social security to the workers in the unorganised sector, the Government enacted the Unorganised Workers Social Security Act, 2008 and the Rules framed under the Act came into force *w.e.f.* 14th May, 2010. Earlier, National Social Security Board was constituted on 18.08.2009. The Board has recommended extension of various social security schemes for unorganised sector workers, *viz.*,

Rashtriya Swasthya Bima Yojana (RSBY), Janshree Bima Yojana (JBY), Indira Gandhi National Old Age Pension (IGNOAP) etc. It is an outcome after due consideration regarding the social security available for labour in the informal sector and the impending need for expanding their coverage.

As a followup to implementation of the Finance Minister's Budget Announcements 2010-11, a review meeting was taken by Finance Secretary with the concerned Secretaries of Ministries/Departments on 17.05.2010 in which, among others, the scheme on National Social Security Fund for unorganized sector workers has also been reviewed for an action plan for its speedy implementation. It has been decided that Ministry of Labour and Employment will be the nodal Ministry to interact with other Ministries/ Departments to finalise scheme guidelines and formulate schemes for obtaining necessary approval for implementation. The accounting procedure will be prepared by Ministry of Finance on the basis of the administrative approval of the scheme guidelines and manner of implementation.

As a sequel to the decision above, a Committee under the Chairmanship of Secretary, Ministry of Labour and Employment with representatives drawn out from Ministry of Finance, Planning Commission, concerned project related Ministry/Department and Director General (Labour Welfare) has been constituted to examine scheme related proposals and to submit its recommendations for approval of Cabinet/CCEA . Moreover, two Task Forces, *viz.* (a) For suggesting schemes to provide social security to Rickshaw Pullers, street vendors, rag pickers, etc. and (b) To suggest a scheme for Pension/Provident Fund for unorganized workers, have been set up to consider and formulate schemes to be implemented under the fund. Meanwhile, a few schemes relating to unorganised sector workers are being actively processed within Ministry of Labour and Employment to avail of the fund.

In the light of the above, once the scheme guidelines and its related schemes are approved by the competent authority, Ministry of Finance will release requisite funds for their speedy implementation. To ensure that the schemes under National Social Security Fund for unorganized sector workers take off at the earliest possible, Ministry of Finance is also closely reviewing the status of implementation of this scheme at regular intervals in consultation with Ministry of Labour and Employment who are, in turn, taking up with the concerned Ministries/Departments to achieve the desired purpose and results. Hence, all efforts are being taken for utilising the amount of Rs.1000

crore allocated for the National Social Security fund for Unorganised Sector workers.

Recommendation (Para No. 4)

The Committee noted that Unit Linked Insurance Products (ULIPs) which are in the nature of insurance cum investment scheme, were introduced in 2001 and had 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 were surprised that despite ULIPs being an old product, the regulatory jurisdiction over these products was 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 was also apparent that while mutual funds, which were akin to ULIPs were well regulated in terms of entry loads, disclosure norms etc., this does not appear to be the case with ULIPs. The Committee, therefore, desired 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.

Reply of the Government

In the recent past there had been a jurisdictional dispute between the Securities and Exchange Board of India (SEBI) and the Insurance Regulatory and Development Authority (IRDA) concerning Unit Linked Insurance Policies (ULIPs). Both the regulators issued orders in this regard which caused some confusion and concern to the ULIP investors. As a consequence of such Orders, insurance companies were also not able to issue new ULIPs. Therefore, it was decided to settle this issue by legally permissible means. Accordingly, Government has promulgated an Ordinance on 18th June, 2010 to make necessary changes in the existing legislations in order to remove doubts and make it clear that the life insurance business also includes any unit linked insurance business.

Further, for resolving differences of opinion as to whether any hybrid or composite policy, scrip or any other instrument having a component of investment and a component of insurance or any other component falls within the jurisdiction of the IRDA or the Reserve Bank of India (RBI) or the Securities and Exchange Board of India (SEBI), an institutional mechanism has been put in place, whereby a Joint Committee under the chairmanship of the Hon.ble Finance Minister would address the jurisdictional issues

concerning hybrid or composite instrument between the regulators so as to ensure the smooth functioning of the financial sector.

Recommendation (Para No. 5)

In this context, the Committee also noted that key financial regulators appointed by Government being at loggerheads on an issue concerning large number of investors/subscribers was very unusual and extremely disquieting. The Committee noted with concern that a ban had been imposed by SEBI on the ULIPs issued by 14 life insurance companies, which had been contradicted by IRDA by asking all these companies to continue with their business as usual, notwithstanding the order of SEBI. The Committee were of the view that the Ministry of Finance could not remain a mute spectator to such posturings of one upmanship by its regulatory bodies. The Committee therefore, recommended 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 desired to be apprised of the steps taken in the matter within one month. In this context, the Committee also desired that the proposed Financial Stability and Development Council should be constituted early to address *inter alia* such inter-regulatory issues.

Reply of the Government

In the recent past there has been a jurisdictional dispute between the Securities and Exchange Board of India (SEBI) and the Insurance Regulatory and Development Authority (IRDA) concerning Unit Linked Insurance Policies (ULIPs). Both the regulators issued orders in this regard which caused some confusion and concern to the ULIP investors. As a consequence of such Orders, insurance companies were also not able to issue new ULIPs. Therefore, it was decided to settle this issue by legally permissible means. Accordingly, Government has promulgated an Ordinance on 18th June, 2010 to make necessary changes in the existing legislations in order to remove doubts and make it clear that the life insurance business also includes any unit linked insurance business.

Further, for resolving differences of opinion as to whether any hybrid or composite policy, scrip or any other instrument having a component of investment and a component of insurance or any other component falls within the jurisdiction of the IRDA or the Reserve Bank of India (RBI) or the

Securities and Exchange Board of India (SEBI), an institutional mechanism has been put in place, whereby a Joint Committee under the chairmanship of the Hon'ble Finance Minister would address the jurisdictional issues concerning hybrid or composite instrument between the regulators so as to ensure the smooth functioning of the financial sector.

Recommendation (Para No. 6)

The Committee noted that though Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF) had been set up with the objective of promoting financial inclusion, their utilization towards achieving the same had 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 had exceeded its corpus, since committed funds under this had exceeded the available funds. The reasons cited for meagre release out of the FIF included *inter alia*, 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 was also stated to be a big factor in limiting commitments. The committee felt that for better utilization of these funds as well as speedier achievement of the goal of financial inclusion, it was imperative that projects were 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 had to be clearly established and their staff needed to be trained and motivated to ensure affective implementation of schemes/ projects. The Committee desired that Government should apprise them of the measures taken to resolve the problems as highlighted above. They also recommended 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.

Reply of the Government

The Finance Minister in his Budget Speech 2010-11 stated that to reach the benefits of banking services to the 'Aam Aadmi', the Government in consultation with the RBI, has decided to provide appropriate Banking

facilities to habitations having population in excess of 2000 by March, 2012. It is also proposed to extend insurance and other services to the targeted beneficiaries. These services will be provided using the Business Correspondent and other models with appropriate technology back up. By this arrangement, it is proposed to cover 60,000 habitations.

The roadmaps for these Financial Inclusion Plans (FIPs) have been finalized by most banks/State Level Bankers Committees (SLBCs). These plans are being reviewed by the RBI in detail with the Banks prior to operationalization. These roadmaps are being up-loaded by the SLBC Convener Banks on their websites in order to facilitate monitoring of the progress by the State Governments, RBI and Government of India. The number of habitations having a population of over 2000 (as per the 2001 census) proposed to be covered under these financial inclusion plans, as per the information received from SLBC convenor banks is approximately 72,300. The banks have been advised to select their technologies for branchless banking through the Business Correspondent (BC) model, procure the required hardware/software, identify their business correspondents' state wise and roll out their financial inclusion plans in a time bound manner.

In view of the challenging task to be achieved by the Banks, there is a need to identify and support innovative methods of taking financial inclusion forward. As a result the Financial Inclusion Fund (FIF) and Financial Inclusion Technology Funds (FITF) have a large number of projects in the pipeline that require fund support. It is thus envisaged that the utilization under these Funds shall rapidly scale up.

NABARD has reported that an amount of Rs.19.47 crore has been sanctioned out of the corpus of Rs. 50 crore under Financial Inclusion Fund (FIF) while under the Financial Inclusion Technology Fund (FITF) an amount of Rs. 21.83 crore has been sanctioned out of the corpus of Rs. 50 crore. Further, NABARD has prepared a programme for expenditure under these funds in the coming year which will take into account needs of Co-operative Banks and RRBs. Also FM in the budget speech 2010-11 has announced that the corpus of these funds would be augmented by Rs 100 crore for each of these funds. NABARD has reported that there are many projects that can be taken up under these funds in the coming years in view of the priority given to financial inclusion effort by the Government.

Recommendation (Para No. 10)

The present mechanism of deterrence through Rural Infrastructure Development Fund (RIDF) did 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 felt that an alternate system/mechanism/process needed to be formulated to enable the farmers to get the benefit of direct institutional credit. The Committee were of the opinion that instead of a penal system the Government /RBI could examine the system of incentives for banks who had achieved the targeted disbursements to agriculture and weaker sections.

Reply of the Government

The overall target for agriculture lending is 18% of Adjusted Net Bank Credit (ANBC). The achievement of Public Sector Banks for the last three years in this regard are as under:

Financial year	Total Agriculture advance in respect of public sector banks (Rs. in crore)	% of ANBC out of the total target of 18%
2006-07	2,02,614	15.40
2007-08	2,49,397	17.50
2008-09	2,98,211	17.20
2009-10	3,70,730	17.28

It may be observed from the above table that the achievement of agriculture lending target has been increased from 15.40% in the year 2006-07 to 17.28% in the year 2009-10. However, the public sector banks are slightly lagging behind the overall agriculture credit target of 18% of ANBC.

The shortfall in the agricultural lending / priority sector/ weaker sections of scheduled commercial banks is being utilized by creating different funds

like Rural Infrastructure Development Fund (RIDF), Short Term Cooperative Rural Credit (STCRC) (Refinance) Fund, Micro, Small and Medium Enterprises (MSME) Refinance Fund, Rural Housing Fund etc. The allocation of these funds for the last two years is as under:

Amount allocated in the last two years

(Rs. in crore)

Name of the Fund	2008-09	2009-10
Rural Infrastructure Development Fund (RIDF)	14,000	14,000
Bharat Nirman Programme	4,000	6,500
Short Term Cooperative Rural Credit (STCRC) (Refinance) Fund 2009-10	5,000	5,000
Micro, Small and Medium Enterprises (MSME) Refinance Fund, 2009-10	4,000	4,000
Rural Housing Fund, 2009-10	1,200	2,000
Total	28,200	31,500

Further, in order to ensure the banks comply with the agriculture credit target, the Government of India has made agriculture lending as one of the parameters for assessing the performance of the top management of Public Sector Banks through the performance linked incentive indicators on which the CMDs and EDs of the public sector banks are assessed. It is a new initiative to incentivize the achievement of the agriculture lending target 2010-11. Thus, the Government and RBI have put in place a policy of incentives and penalties to encourage the achievement of the agricultural lending targets. Also the Finance Minister in his zonal reviews with CEOs of Public Sector Banks and State Governments directed that the Kisan Credit Cards (KCCs) be increased by 20% in number and 20% in amount in the Financial Year 2010-11.

Recommendation (Para No. 11)

The Committee were informed that Lead Banks had 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 action plan for overall development of villages.

Reply of the Government

A High Level Committee to review the Lead Bank Scheme was constituted by the Reserve Bank of India. The Committee in its report in August, 2009, had *inter alia* recommended the broadening the scope of Lead Bank Scheme (LBS) to specifically cover financial inclusion. Further, the Committee recommended that the Lead Bank Scheme is useful and needs to continue. The overarching objective of the scheme is to enable banks and State Governments to work together for inclusive growth. With a view to improving the efficacy of the LBS, the RBI advised that the various fora under the LBS need to be strengthened. More time of the SLBC/DCC machinery may be utilized to discuss specific issues inhibiting and enabling financial inclusion. At the District Consultative Committee (DCC) level, sub committees as appropriate may be set up to work intensively on specific issues and submit reports to the DCC for its consideration. Besides, the Reserve Bank of India has directed the banks through its circulars dated February 26, 2010, March 2, 2010 and July, 26, 2010 to implement the recommendations of the High Level Committee. Some of the important areas which are common to all the districts on which the Lead Banks should invariably discuss in these meetings include:

(a) Monitoring mechanism to periodically assess and evaluate the progress made in achieving the road map to provide banking services within the time frame prescribed.

(b) Identification of unbanked/under banked areas for providing banking services in a time bound manner with a view to achieve 100% financial inclusion

(c) The specific issues inhibiting and enabling IT enabled financial inclusion

(d) Issues to facilitate ‘enablers’ and remove/minimise ‘impeders’ for banking development for inclusive growth

(e) Monitoring initiatives for providing 'Credit Plus' activities by banks and State Governments such as setting up of Credit Counseling Centres and RSETI type Training Institutes for providing skills and capacity building to manage businesses.

(f) Review of performance of banks under Annual Credit Plan (ACP)

(g) Flow of credit to priority sector and weaker sections of the society

(h) Assistance under Government sponsored schemes

(i) Grant of educational loans

(j) Progress under SHG - bank linkage

(k) SME financing and bottlenecks thereof, if any

(l) Timely submission of data by banks

(m) Review of relief measures (in case of natural calamities wherever applicable)

The Monitoring Mechanism will further strengthen the action plan in providing banking services within the timeframe.

Recommendation (Para No. 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 had 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 had 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 seemed that while public sector banks had fallen short of lowering their NPAs, their private sector counterparts had fared better in this regard. Among public sector banks, 13 banks had shown rising NPAs since March 2008, while as many as 6 banks had shown consistent rise in net NPAs since March 2007. In contrast, new private banks had

reported higher NPAs as against their old counterparts. Also, 4 new private banks had shown steady rise in NPAs since March, 2007. In view of the above, the Committee did not find merit in the contention that NPAs had risen only recently owing to extraordinary economic circumstances. The Committee, therefore, desired to be apprised about the effectiveness of measures taken by Government/Reserve Bank of India in arresting the growth of NPAs. They also desired to be apprised on the role of DRTs in effecting settlement of debt.

Reply of the Government

On the basis of information available with the Reserve Bank of India (RBI), it is observed that Net Non-Performing Assets (NPAs) of Public Sector Banks (PSBs) were Rs.15,892 crore and Rs.25,610 crore as on March 2007 and December 2009 respectively, the accretion being Rs. 9,718 crore. The Net NPAs of Private Sector banks were Rs. 4,022 crore and 7,134 crore for the similar period, the accretion being Rs. 3,112 crore. As regards the gross advances, the gross advances of PSBs had increased from Rs. 13,73,777 crore as on March, 2007 to Rs. 22,92,221 crore as on December 2009 while that of private sector banks increased from Rs. 3,91,869 crore to Rs. 5,41,147 crore.

'While the actual amount of NPAs has increased in absolute terms both in respect of PSBs and private sector banks, in percentage terms, however, the Gross NPAs and Net NPAs of PSBs had fallen from 2.81 to 2.36 and 1.18 to 1.13 respectively during the aforesaid period. As regards the private sector banks, while the percentage of Gross NPAs of old private sector banks had fallen from 3.17 to 2.64, that of new private sector banks had in fact increased from 2.10% to 3.39% during the period under reference. In so far as the net NPAs are concerned, the net NPAs of new private sector banks had increased from 1.06 to 1.49 while that of the old private sector banks had marginally fallen from 0.97 to 0.96 during the period under consideration.

It may thus be observed from the above that while in absolute terms, the net NPAs of PSBs had increased during the period from March 2007 to December 2009; they had actually declined in percentage terms.

RBI has, over a period of time, provided the following menu of options for facilitating expeditious recovery of NPA dues from the defaulting borrowers:

A. Compromise/One Time Settlement

(i) Guidelines on One Time Settlement for small borrowal accounts and eligibility for fresh loans - In order to offer small borrowers an opportunity to settle their NPA accounts with banks and become eligible for fresh finance, all scheduled banks (including Regional Rural Banks and Local Area Banks) have been advised to provide a simplified mechanism for one time settlement of loans where the principal amount is equal to or less than Rs. 25,000/- and which have become doubtful and loss assets as on September 30, 2005.

(ii) Besides, Commercial banks can frame their own Board approved policy for compromise settlement of the Non-Performing Assets in terms of extant RBI Circular.

B. Steps relating to filing of suits

(i) Banks have been advised to review cases of loss assets outstanding for more than two years and where legal action has not been initiated.

(ii) In May 2001 banks were advised to examine all cases of wilful default of Rs. 1 crore and above and file suits in such cases, if not already done. Further, they were also advised to examine whether in such cases of wilful defaults, there are instances of cheating / fraud by the defaulting borrowers and if so, they should also file criminal cases against those borrowers. In other cases involving amounts below Rs. 1 crore, they were advised to take appropriate action, including legal action, against the defaulting borrowers.

C. Prudential guidelines on Restructuring of advances by banks

RBI has, at various points of time, prescribed various types of restructuring guidelines applicable to different types of borrowers

viz. (i) Guidelines on restructuring of advances extended to industrial units under the Corporate Debt Restructuring (CDR) Mechanism, (ii) Guidelines on restructuring of advances extended to Small and Medium Enterprises (SME) and (iii) Guidelines on restructuring of all other advances. The objective of the CDR framework is to ensure a timely and transparent mechanism for restructuring of the corporate debts of viable corporate entities affected by internal or external factors, outside the purview of BIFR, DRT and other legal proceedings, for the benefit of all concerned and is applicable only to multiple-banking accounts/syndicates/consortium accounts with outstanding exposure of Rs.10 crore and above with the banks and financial institutions.

In order to align the principles governing restructuring of different types of advances, a Working Group was constituted and based on its recommendations and public comments, fresh guidelines on the subject of restructuring superseding all the earlier guidelines on the subject, have been issued on August 27, 2008.

D. Publication of list of big loan defaulters of banks

With effect from March 2003, dissemination of credit information covering data supplied on suit-filed defaulters in the financial system is being undertaken by Credit Information Bureau (India) Ltd. (CIBIL). Accordingly, such data can now be accessed on CIBIL's website. Further, RBI had issued instructions to banks/FIs to obtain the consent of all their borrowers (and not only defaulters) for pooling of data for development of a comprehensive credit information system. The credit information helps as an 'alert' to the financing institutions before extending fresh credit facilities.

E. Steps relating to Wilful Defaulters

(i) In order to prevent the access to the capital market by the wilful defaulters, a copy of the list of wilful defaulters would henceforth be forwarded by RBI to SEBI as well. It has been decided that

the banks and Financial Institutions (FIs) should initiate penal measures against willful defaulters like:

- Non-grant of additional facilities to them;
- Debarring entrepreneurs/promoters of defaulting companies from institutional finance for floating new ventures for a period of 5 years etc.

(ii) Further, in case, any falsification of accounts on the part of the borrowers is observed by the banks/FIs, they should lodge a formal complaint against the auditors of the borrowers with the Institute of Chartered Accountants of India (ICAI), if it is observed that the auditors were negligent or deficient in conducting the audit to enable the ICAI to examine and fix accountability of the auditors.

F. Guidelines on purchase/sale of Non-Performing Assets

In order to increase the options available to banks for resolving their non-performing assets and to develop a healthy secondary market for non-performing assets, where securitisation companies and reconstruction companies are not involved, guidelines have been issued to banks on purchase/sale of non-performing Assets, in July 2005.

G. Other Steps

Banks have also been advised to:

(i) Formulate and implement Loan Policy and Loan Recovery Policy with the approval of the Board of Directors.

(ii) Establish Recovery Cells at Head Office, fixing of recovery targets for various levels and close monitoring of recovery performance.

(iii) Review of NPA accounts of Rs.1 crore and above by Board of Directors with special reference to fixing of staff accountability and review of top 300 NPA accounts by Management Committee of the Board.

(iv) Strengthen the risk management systems by putting in place institutional framework for identifying, monitoring and management of credit risk.

(v) Debar bank loan defaulters from holding any public office.

H. Recovery of NPAs — Legal Mechanism

The three legal options also available to banks for resolution of NPAs, *viz.*, the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002, Debt Recovery Tribunals (DRTs) and Lok Adalats, have led to a steady increase in the adjudication and recovery of disputed amounts.

The details of resolution of NPAs under the three legal mechanisms are as follows:

Resolution of NPAs

(Cumulative as at end-March 2009)

(Amount in Rupees crore)

Resolution Mechanism	Number	Amount	Number	Amount	Number	Amount
1	2	3	4	5	6	7
SARFAESI	Notices Issued		Recovery		Compromise Proposals	
	3,41,756	68,127	2,10,641	19,396	79,277	11,249
DRTs	Cases Filed		Adjudicated Cases		Recovery	
	81,173	1,30,508	49,033	65,585	N.A.	24,889
Lok Adalats	Cases Filed		Cases Decided		Recovery	
	17,12,958	11,763	4,55,423	2,220	3,75,858	982

N.A.: Not Available.

Among the various channels of recovery available to banks for dealing with bad loans, the SARFAESI Act and the Debt Recovery Tribunals (DRTs) have been the most effective in terms of amount recovered. During the years 2007-08 and 2008-09, the amount recovered as percentage of amount involved was the highest under the DRTs, followed by SARFAESI Act. The details are given in the table below:

NPAs Recovered by Scheduled Commercial Banks through Various Channels (During the Year)

(Amount in Rs. crore)

Recovery Channel	2007-08				2008-09			
	No. of cases Referred	Amount Involved	Amount Recovered	Col. (4) as % of Col. (3)	No. of cases Referred	Amount Involved	Amount Recovered	Col. (8) as % of Col. (7)
1	2	3	4	5	6	7	8	9
(i) Lok Adalats	1,86,535	2,142	176	8.2	5,48,308	4,023	96	2.4
(ii) DRTs	3,728	5,819	3,020	51.9	2,004	4,130	3,348	81.1
(iii) SARFAESI Act	83,942#	7,263	4,429	61.0	61,760	12,067	3,982	33.0

#: Number of notices issued.

Source: Trend and Progress of Banking in India, 2009.

Recommendation (Para No. 15)

The Committee took serious note of the fact that capital expenditure of the Central Government has declined over the last five years, with only 10 per cent of the total expenditure going towards creation of assets in the year 2008-09. The reason for this declining trend in capital formation was 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 were created, were 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 were 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 therefore, expected the Government to ensure that the extent of capital expenditure made, actually resulted 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.

Reply of the Government

The capital expenditure as percentage to total expenditure during the last four years together with position in BE 2010-11 is given below:

(Rs. in crore)

	2006-07	2007-08	2008-09	RE 2009-10	BE 2010-11
Total Expenditure	583387	712671	883956	1021547	1108749
Revenue	514609	594433	793798	906355	958724
Capital	68778	118238	90158	115192	150025
Capital expenditure % of total expenditure	11.79%	16.59%	10.20%	11.28%	13.53%

As may be seen from the table given above, the capital expenditure of the Union Government in comparison with total expenditure is hovering around 11.8% to 13.5% barring the years 2008-09 and 2009-10. The implementation of the recommendation of 6th Central Pay Commission took place in the years 2008-09 and 2009-10, which resulted in higher revenue

expenditure and as a corollary in percentage to total expenditure. However, in absolute terms, as may be seen, the capital expenditure went up from Rs.90,158 crore in 2008-09 to Rs.1,15,192 crore in 2009-10.

The other reason for depicting less percentage in capital expenditure is due to inherent system of classification under which transfers of funds to States for implementation of various schemes are shown as revenue expenditure in the accounts of the Central Government. There was no provision of disaggregating the grants-in-aid for Capital and Revenue.

Effective from 2009-10, Ministries/Departments were requested to review the expenditure provisions especially relating to grants-in-aid and to disaggregate the provisions appropriately into two distinct object heads, *viz.* 'Grants-in-aid General' and 'Grants for creation of capital assets', consequent upon amendment of the existing object head 'Grants-in-aid' to 'Grants-in-aid General' and opening of a new object head 'Grants for creation of capital assets'. This exercise would facilitate identifying the transfers to State and Union Territory Governments for implementation of various schemes through which assets are created.

As regards the Committee's recommendation for on-line monitoring system to gauge the creation of assets, particularly in rural development schemes, the Ministry has noted the importance and purposefulness of the same. Instructions would be issued to respective Ministries implementing the schemes to develop concrete mechanism to monitor and gauge the creation of assets out of grants for creation of assets.

The Controller General of Accounts is also designing "Plan Accounting & Public Financial Management System" to capture Ministry-wise/State-wise Plan Schemes, on-line release of funds and expenditure thereof which may help in monitoring the utilization of funds.

Recommendation (Para No. 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) had been made in case of five public sector undertakings, thereby realizing Rs. 23552.97 crore. However, the policy of the Government regarding utilisation of disinvestments proceeds was not very transparent. On the one hand, the Government had stated in the Medium Term Fiscal Policy Statement that these proceeds had helped in cutting down fiscal deficit, while on the other hand, the Committee were informed that these proceeds would be utilised for capital expenditure under the specified social sector schemes. The Committee, therefore, recommended that the Government should clearly spell out the policy stance with regard to utilisation

of disinvestment proceeds. They also desired 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.

Reply of the Government

The National Investment Fund was constituted in November, 2005. The objective of the National Investment Fund was that 75% of the annual income of the fund will be used to finance selected social sector schemes and residual 25% to meet capital investment requirements of profitable and revivable CPSEs in order to enlarge their capital base to finance expansion/ diversification. Since the corpus of the National Investment Fund was of a permanent nature, income generated from the investments made out of the National Investment Fund is alone available for meeting the objectives of NIF.

Subsequently, in view of the difficult economic situation caused by the global slowdown of 2008-09 and severe drought conditions, the Government decided on 5.11.2009 that disinvestments proceeds deposited in the National Investment Fund from April, 2009 to March, 2012 will be utilized only for capital expenditure on identified social sector schemes.

The disinvestment receipts to the tune of Rs. 1651 crore in 2007-08 and Rs. 163.45 crore in 2008-09 (arrears of 2007-08 transferred in 2008-09) were placed at the disposal of Fund Managers for efficient and professional management and receiving suitable returns therefrom. Since the NIF was operationalised in 2007-08; no amount was transferred to it in 2005-06 & 2006-07.

The disinvestment receipts of Rs. 23, 552.97 crore in 2009-10 and BE of Rs. 40,000 crore in 2010-11 are utilized towards meeting capital expenditure on the following social sector schemes in accordance with the decision taken by the Cabinet on 5.11.2009.

(Rs. in crore)

Name of the Scheme	2009-2010	BE 2010-2011
1	2	3
Accelerated Irrigation Benefits Programme (AIBP)	1462.97	4656.00
Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY)	3000.00	5000.00
Indira Awas Yojana (IAY)	5280.00	8448.00

1	2	3
National Rural Employment Guarantee Scheme (NREGS)	11730.00	18768.00
Jawaharlal Nehru National Urban Renewal Mission (JNNURM)	1922.00	3076.00
Accelerated Power Development and Reform Programme (APDRP)	158.00	520.00
Total	23552.97	40000.00

The income generated from the investments made out of National Investment Fund is utilized towards Mid-day Meals Scheme in Schools to the tune of Rs. 185.90 crore in RE 2009-10 and Rs. 125.88 crore in BE 2010-11. The balance amount due for capital investment requirements of profitable and revivable CPSEs is left in the Fund for deployment.

Recommendation (Para No. 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 apprehended the disinvestment programme, if carried out in the present manner, might have to be bailed out by Government owned companies.

Reply of the Government

Insurance companies and public sector banks participate in the IPOs/ FPOs in a big way irrespective of whether they are from public sector or private sector. Therefore, it cannot be concluded that Government Issues are bailed out by Government Companies.

Recommendation (Para No. 18)

The Committee were of the view that the disinvestments programme should not become dependent on public financial institutions. The Committee, therefore, recommended 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.

Reply of the Government

Before launching the Public Offerings, all aspects including market conditions are taken into consideration by the Government, in consultation with the Advisors appointed for the transaction, to ensure best returns to the Government and some benefits to the investors.

CHAPTER III

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

-NIL-

CHAPTER IV

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

Recommendation (Para No. 2)

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

Reply by the Government

The Viability Gap Funding (VGF) scheme is an enabling scheme to make the Public Private Partnership projects commercially viable. Viability Gap funding is disbursed as equity support to the project. The quantum of VGF to be disbursed is determined through competitive bid process. To safeguard the public funds being invested in a PPP project, the funds are released, in proportion to the disbursal of loan by the Leading Financial Institution after financial closure of the project and after the private sector equity has been completely expended on the project.

While the Budget Estimates are formulated based on the anticipated requirement of the approved projects, actual utilization was influenced by a

number of factors during the period 2006 when the scheme was introduced, to 2009, including :

(i) inexperience of the project sponsors in implementing PPP projects and lack of familiarity with the Scheme, which led to delays in completion of the bidding process;

(ii) projects receiving premium (negative grant)/revenue share where VGF was not required when private sector was more optimistic regarding return on investments during the period of high economic growth; and

(iii) effect of global recession and slow down of Indian economy from mid 2008 resulting in dampening of investor interest in projects, prolonged bid process (as projects were rebid) and there were delays in achieving financial closure.

In all the above cases, the budget provisions were reviewed and revised at RE stage.

However, the Department undertakes regular review of the progress of the projects while formulating the requirement of VGF and only after due diligence/appraisal of project, approves VGF through the competent authority. As the investor/developer perception of the macro-economic conditions and expected revenue generation from the project also influences how a project is evaluated by the market, it is difficult to precisely estimate the actual VGF requirement before the completion of the bid process.

Recommendation (Para No. 3)

It was a matter of serious concern for the Committee that the combined debt burden of the Centre and State Governments had now reached 80 per cent of GDP. They founded that over the years, the debt burden of the Central Government manifested a high level of 56.7 per cent as budgeted for the year 2009-10, of which internal debt along with other internal liabilities accounted for 54.4 per cent. This combined with States debt liabilities had 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 had been made so far by the Centre and States had been altogether negated by fiscal profligacy under-pinned by high debt, which undoubtedly would be unsustainable in the future. More alarming was the fact that around 36 per cent of the revenue of the Central Government

was being spent on servicing of debt. This, in the view of the Committee, clearly indicated the inexorable path of debt trap towards which the country might be heading for, nearly mortgaging the future generations to present-day compulsions. Although, based on the projections of the Thirteen Finance Commission, it might be possible to reverse this trend, however, the Committee apprehended 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 the deposition before the Committee about the difficulty to achieve the deficit targets as envisaged by the Finance Commission was also not a very encouraging sign. The Committee, therefore, desired 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.

Reply of the Government

The total debt of the Central Government comprises the internal debt, external debt and other liabilities. Under internal debt the major components are market loans, treasury bills of various maturities, securities issued against small savings etc. The external debt is the borrowing of the Government from bilateral and multilateral organizations. The other liabilities comprise the National Small Savings Fund, State Provident Funds and other Public Accounts liabilities. The increase in the debt is primarily on account of increased borrowings of the Government to Finance its developmental expenditure. The total liabilities (Internal Debt, External Debt and other Liabilities) of the Union Government have risen marginally to 57.0 per cent of the GDP in the year 2009-10 (RE) after failing to 56.7 per cent in 2008-09 (Provisional) from a level of 61.6 per cent of the GDP in the year 2004-05.

Total debt of the Government during the period 2004-05 to 2010-11(BE) as per cent of GDP is given below:

Year end March	Internal Debt	Other liabilities	External Debt	Total
1	2	3	4	5
2004-05	39.4	20.3	1.9	61.6

1	2	3	4	5
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 (provisional)	36.4	18.1	2.2	56.7
2009-10(RE)	37.9	16.8	2.3	57.0
2010-11(BE)	39.5	15.1	2.3	56.9

The 13th Finance Commission has assessed the finances of the union and the states and specified a combined debt target of 68% to be met by 2014-15. For the Centre it has recommended that revenue deficit be eliminated and fiscal deficit be brought down to 3% of GDP by 2013-14. The Government has accepted these recommendations in principle.

A comparison of the fiscal targets given by the 13th Finance Commission and those given in the FRBM statements are as follows (all numbers are in percentage of GDP):

	2010-11	Target for 2011-12	Target for 2012-13
Fiscal Deficit (as per FRBM)	5.5	4.8	4.1
Fiscal Deficit (as per 13th Finance Commission)	5.7	4.8	4.2
Total liabilities (as per FRBM)	51.1	50.0	48.2
Total liabilities (as per 13th Finance Commission)	53.9	52.5	50.5

The Debt position reported in the FRBM Statements are prepared after the following adjustments in the debt numbers reported in the Receipt Budget: (i) NSSF loans to the States are excluded from the liability of the

Central Government to avoid double counting, and (ii) external loans are calculated at current exchange rates (against the exchange rates at book value in the Receipt Budget). With these adjustments the total debt – GDP ratio in RE 2009-10 works out 51.5% and comes to 51.1% in BE 2010-11. The FRBM statement projects the fiscal deficit for 2011-12 and 2012-13 at 4.8% and 4.1% respectively. The corresponding numbers for the total debt - GDP ratio are 50.0% (2011-12) and 48.2% (2012-13) respectively. A comparison of the 13th Finance Commission and the Government's targets for debt for the next two years clearly shows that the Government is actually targeting a level even lower than that recommended by the 13th Finance Commission.

Interest payments as a percentage of Total Revenue Receipts over the last six years has been as follows:

Year	Interest payments as a percentage of Total Revenue Receipts
2004-05	41.5
2005-06	38.2
2006-07	34.6
2007-08	31.6
2008-09 (provisional)	35.6
2009-10 (RE)	38.0
2010-11 (BE)	36.4

It is true that Interest Payments have increased over the last two years due to increased borrowings undertaken to finance the counter-cyclical expansionary fiscal policy undertaken by the Government to combat the economic slowdown. However, with the return to fiscal consolidation in the current year, interest payments as a percentage of Total Revenue Receipts is likely to come down to 36.4 percent in 2010-11 (BE) from a level of 38 percent in 2009-10 (RE).

The Government has embarked on a fiscal consolidation process in the Budget 2010-11. The fiscal deficit of the Government has come down from

a level of 6.7% of GDP in RE 2009-10 to 5.5% in BE 2010-11. The total debt is projected to come down slightly from 51.5% of GDP in RE 2009-10 to 51.1% in BE 2010-11. It has also been announced in the Budget Speech that "the Government would target an explicit reduction in its domestic public debt-GDP ratio". As announced in the budget, a status paper giving detailed analysis of the debt situation and a roadmap for curtailing overall public debt will be brought out shortly. With all these measures and an abiding commitment to fiscal consolidation, the Government is confident of meeting the fiscal deficit and debt targets laid down by the 13th Finance Commission.

Recommendation (Para No. 7)

Financial inclusion has received major policy focus in recent years. The Government had 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 bank in promoting financial inclusion, use of appropriate technology etc. However, these steps notwithstanding, 375 districts and 99 blocks in the country continue to be either under-banked or unbanked. While the Union Budget had announced the issuing of additional licenses for private banks for extending geographic coverage of banking services, it was not clear as to how the potential of private players would 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, recommended 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.

Reply of the Government

As on June 30, 2010, there are 88,363 offices of Scheduled Commercial Banks (SCBs) in the country, out of which 32,603 (37%) bank offices are in rural areas, 21,011 (24%) in semi-urban areas, 18,268 (20%) in urban areas and 16,481 (19%) in metropolitan areas. The number of branches in semi-urban and rural areas constitutes around 61% of the total number of branches in the country.

The Reserve Bank of India (RBI) has reported that average population per bank branch for commercial banks is reducing as given below:

As on	Average population per bank branch
31st March 2008	14,649
31st March 2009	14,153
31st December 2009	13,639
31st March 2010	13,400

An under-banked district is a district where the Average Population Per Branch Office (APPBO) is more than the national average. At present there are 375 under-banked districts in the country. Presently, there 89 unbanked blocks in the country out of which 80 unbanked blocks are in NE Region, 5 in the State of Jharkhand and 4 blocks in Jammu & Kashmir. Opening of branches in these unbanked blocks is being followed up with the State Level Bankers Committee (SLBC) Convenor Banks, RBI and State Governments. The Department of Financial Services has also requested the Home Ministry to take up the matter with the North Eastern States Governments to provide premises in Government buildings preferably near the local Police Stations. The State Governments have also been urged to avail benefits under the RBI's Viability Gap Funding Scheme for this purpose. The scheme provides financial support to banks by the Reserve Bank for setting up banking facilities *viz.*, currency chests, extension of foreign exchange and Government business facilities at "agreed" centres in the North-Eastern Region, which are not found to be economically viable by banks was formulated. This Scheme requires the State Governments to make available necessary premises and other institutional support. The Reserve Bank of India, as its contribution, would bear the one time capital cost and recurring cost per annum for a limited period of five years as per the lowest bid offered by the Bank.

Several other initiatives have also been taken by the Government of India and RBI to extend the reach of banking to rural and semi-urban areas:—

(a) **Simplified branch authorisation** — To facilitate the opening of bank branches in rural areas and to address the issue of uneven

spread of bank branches RBI has relaxed its branch authorization policy. Since December 2009, RBI has permitted domestic scheduled commercial banks to freely open branches in Tier 3 to Tier 6 centres with population of less than 50,000 under general permission, subject to reporting. In the North Eastern States and Sikkim, domestic scheduled commercial banks can now open branches in rural, semi-urban and urban centres without the need to take permission from Reserve Bank in each case, subject to reporting.

(b) **Relaxed KYC norms**—The Know Your Customer (KYC) requirements for opening bank accounts have been relaxed since August, 2005 and simplified for accounts with balances not exceeding Rs. 50,000/- and aggregate credits in the accounts not exceeding Rs. one lakh a year. Introduction by an account holder who has been subjected to full KYC drill would suffice for opening such accounts or the bank can take any evidence as to the identity and address of the customer to the satisfaction of the bank.

(c) **No frills accounts—**Reserve Bank of India, in November, 2005 advised all scheduled commercial banks to make available a basic banking 'no-frills' account with 'nil' or very low minimum balances that would make such accounts accessible to vast sections of the population. RBI has reported that banks have opened 3.92 crore such accounts as on March 31, 2010. Banks have also been advised to provide small overdrafts in such accounts.

(d) **General Credit Cards**—In December, 2005, banks were advised to consider introduction of a General Purpose Credit Card (GCC) facility up to Rs. 25,000/- at their rural and semi-urban branches. The credit facility is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned. Based on assessment of household cash flows, the limits are sanctioned without insistence on security or purpose. Interest rate on the facility is completely deregulated. As on March 31, 2010, public sector banks had provided credit aggregating Rs. 575.38 crore under the GCC scheme.

(e) **Business Correspondents/Business Facilitators—**Since January 2006, the Reserve Bank has permitted banks to utilise the services of Non-Governmental Organizations (NGOs), micro-finance institutions (other than Non-Banking Financial Companies) and other civil society organisations as intermediaries in providing financial and banking services through the use of business facilitator and business correspondent (BC) models. The BC model allows banks to do 'cash in - cash out' transactions at a location much closer to the rural population, thus addressing the last mile problem. From April 2010, the ambit of the BC model has been widened to engage any individual as BC by banks. With a view to ensuring the viability of the BC model, banks have been permitted to collect reasonable service charges from the customer, in a transparent manner under a Board-approved policy. As on March 2010, banks have reported employing 2301 BCs covering 53382 villages. Of this, public sector banks have reported employing 2128 BCs, private sector banks 172 BCs and foreign banks 1 BC.

(f) **CBS in RRBs—**Given the strategic positioning of Regional Rural Banks (RRBs), the Reserve Bank has directed their sponsor banks to speedily, and fully, implement Core Banking Solution (CBS) in all RRBs and commit to firm timeline, by September 2011, by which all RRBs will become fully CBS- compliant. This is expected to give a further fillip to financial inclusion efforts given the penetrative outreach of the RRBs in the rural areas. So far more than 3000 branches have been rolled over to CBS.

(g) **Scaling up IT—**Banks had been urged in May, 2007 to scale up IT initiatives for financial inclusion speedily while ensuring that solutions are highly secure, amenable to audit, and follow widely-accepted open standards to ensure eventual inter-operability among the different systems.

(h) **Mobile Banking—**Mobile banking has potential for facilitating financial inclusion. Mobile banking guidelines for banks were issued in October 2008. Since December 2009, banks have been permitted to offer this service to their customers subject to a daily cap of Rs 50,000/- per customer for both funds transfer and transactions involving purchase of goods/services.

(i) **Special package for North Eastern States**—To improve banking penetration in the North-East, the Reserve Bank asked the State Governments in the region and banks to identify centres where there is a need for setting up either full fledged branches or those offering forex facilities, handling Government business or for meeting currency requirements. It has also offered to fund the capital and running costs for five years as per lowest bid offered by banks, provided the State Government concerned is willing to make available the premises and other infrastructural support. Accordingly, bids were invited from public sector banks and RRBs for opening of bank branches (general banking business) at five centres and currency chest at three centres in Meghalaya State, on a pilot basis and these have been allocated to three public sector banks. In Tripura the bidding process has been initiated for opening branches at five centres. The Reserve Bank is working with other States like Arunachal Pradesh, Manipur and Nagaland in the north-east to institute similar arrangements.

(j) **FIF and FITF**—Based on the recommendations of the "Committee on Financial Inclusion" set up by the Government of India (GoI) under Dr. C. Rangarajan, two Funds, namely, the "Financial Inclusion Fund (FIF)" for meeting the cost of developmental and promotional interventions for ensuring financial inclusion, and the "Financial Inclusion Technology Fund (FITF)", to meet the cost of technology adoption has been set up at NABARD with an overall corpus of Rs. 500 crore each. The corpus is shared by GoI, RBI and NABARD in the ratio 40:40:20. As on 31 March, 2010, 20 projects with financial outlay of Rs 19.47 crore under FIF and 27 projects with financial outlay of Rs 21.83 crore under FITF have been sanctioned for BC/BF model to various Banks.

(k) **Financial Literacy and Credit Counselling Centres**—Each SLBC convenor has been asked to set up a credit-counselling centre in one district as a pilot, and extend it to all other districts in due course. As on March 2010, banks have reported setting up 135 credit counselling centres in various States of the country. A model scheme on Financial Literacy and Credit Counselling Centres (FLCCs) was formulated and communicated to all scheduled commercial banks and RRBs with the advice to set up

the centres as distinct entities maintaining an arm's length from the bank so that the FLCC's services are available to even other bank's customers in the district.

(l) **SHG bank linkage programme**—To give an impetus to microfinance, the same was categorized under priority sector lending and lending to SHGs was brought under the weaker sections of the priority sector. Banks have been advised to provide adequate incentives to their branches for financing the SHGs.

Roadmap for Financial Inclusion

The Finance Minister in his Budget Speech 2010-11 stated that in order to reach the benefits of banking services to the 'Aam Aadmi', the Government in consultation with the Reserve Bank of India (RBI), has decided to provide appropriate banking facilities to habitations having population in excess of 2000 (as per 2001 census) by March, 2012. These services will be provided using the Business Correspondent and other models with appropriate technology back up. The roadmaps for Financial Inclusion Plans (FIPs) for providing banking facilities in villages having population over 2000 have been finalized by most banks/SLBCs by 31 March, 2010. These plans are being reviewed by the RBI in detail with the Banks prior to operationalization. The SLBC convenors have also been advised to up-load these financial inclusion plans on their websites in order to facilitate monitoring of the progress by the State Governments, RBI and Government of India.

The banks have also been advised to select their technologies for branchless banking through the Business Correspondent (BC) model, procure the required hardware/software, identify their business correspondents' state-wise and roll out their financial inclusion plans in a time bound manner. Banks have been advised to make efforts to contact the State Governments and ensure that all State Government Social Security benefits are also routed through the banking system, such that financial inclusion becomes viable for the banks and attractive for the villagers.

The number of habitations having a population of over 2000 (as per the 2001 census) proposed to be covered under these financial inclusion plans, as per the information received from the SLBC convenors banks is approximately 72,300. All the above efforts are being monitored closely to ensure that the reach of banking services can be extended rapidly to the hinterland.

Opening New Bank Branches : RBI has recently invited suggestions and comments, by (September 30, 2010), on the following aspects delineated in the Discussion Paper regarding opening/licensing of new bank branches:

1. Minimum capital requirements for new banks and promoters contribution.

2. Minimum and maximum caps on promoter shareholding and other shareholders.

3. Foreign shareholding in the new banks.

4. Whether industrial and business houses could be allowed to promote banks.

5. Should Non-Banking Financial Companies be allowed conversion into banks or to promote a bank.

6. Business model for the new banks.

RBI after receiving feedback, comments and suggestions on the possible approaches discussed in this paper and detailed discussions with the stakeholders, comprehensive guidelines for licensing of new banks would be framed and applications invited for setting up new banks.

Recommendation (Para No. 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. seemed to be fraught with uncertainties. On the other hand, banks, both in the public sector and in the private sector, had evolved over decades a unique model of Pigmy/Tiny Deposit Collectors who were 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” was being neglected by Government. Keeping in view the primary need of ensuring evolution of dependable and trustworthy BCs/ BFs model’s network and broad basing the concept of financial inclusion, RBI should focus on gainfully utilizing the Pigmy/Tiny Depositors, especially in view of their vast experience and proven trustworthiness. Further, the Committee recommended 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.

Reply of the Government

The Finance Minister in his Budget Speech 2010-11 stated that in order to reach the benefits of banking services to the ‘Aam Aadmi’, the Government in consultation with the Reserve Bank of India (RBI), has decided to provide appropriate banking facilities to habitations having population in excess of 2000 (as per 2001 census) by March, 2012. These services will be provided using the Business Correspondent and other models with appropriate technology back-up.

The number of habitations having a population of over 2000 (as per the 2001 census) proposed to be covered under these FIPs, as per the information received from the SLBC convenor banks is approximately 72,300. The Banks have already initiated action adopting various technologies and models across the country.

Since January 2006, the Reserve Bank has permitted banks to utilise the services of non-governmental organisations (NGOs), micro-finance institutions (other than Non-Banking Financial Companies) and other civil society organisations as intermediaries in providing financial and banking services through the use of business facilitator and business correspondent (BC) models. The BC model allows banks to do ‘cash in — cash out’ transactions at a location much closer to the rural population, thus addressing the last mile problem.

From April 2010, the ambit of the BC model has been widened to engage any individual as BC by banks. With a view to ensuring the viability of the BC model, banks have been permitted to collect reasonable service charges from the customer, in a transparent manner under a Board-approved policy.

The BC Model ensures a closer relationship between poor people and the organized financial system. As on March 2010, banks have reported employing 2301 BCs covering 53382 villages. Of this, public sector banks have reported employing 2128 BCs, private sector banks 172 BCs and foreign banks 1 BC. Further, in the Annual Policy of the Reserve Bank for the year 2010-11, it has been announced that any individual may be employed as BC by banks, including Common Service Centres (CSCs), subject to bank's comfort level and their carrying out due diligence. RBI has since liberalized the list of entities who could be appointed as BCs and permitted banks to use the services of Non-Governmental Organizations, Micro Finance Institutions, Retired Banks Employees, Ex-servicemen, Retried Govt. Employees etc. in the category of BCs. The Banks have largely used services of companies listed in Section 25 and other civil society organizations as Business Correspondents in providing financial and banking services. These companies may appoint their sub-agents to execute the job. If the model of Pigmy/Tiny Deposit Collectors fit in any of these models, the banks are free to utilize their services wherever these are found feasible/operable. Further the banks have freedom to choose whatever model suits them according to their need in fulfilment of the objective of providing banking services and levy a suitable charge(s).

The Ministry of Finance has been urging State Governments to provide the necessary support required for extending banking services to the rural hinterland. State Governments have also been requested to route payments of all Government schemes and programmes through banks. 9.00 crore accounts including 4.18 crore Post Office accounts and 5.01 crore of Bank accounts of MGNREGA wage earners have been opened. Disbursement of wages amounting to Rs. 21,625 crore through these accounts *i.e.* 84% of total disbursement of wages (F.Y. 2009-10). Further, in 2009-10 Rs.12,760 crore was disbursed as wages through 5.1 crore individual and joint bank accounts.

Recommendation (Para No. 9)

The Committee notice that performance of commercial banks had 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) was to be lent to agriculture and 10 per cent of ANBC was to be extended for weaker sections. In the year 2009, only 14 public sector

and 8 private sector banks had been able to meet the agricultural lending target. This showed that banks were getting away with lower disbursement to agriculture with impunity. While the performance of pubic sector banks in case of weaker sections had been relatively better, private sector banks had 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.

Reply of the Government

The RBI guidelines on priority sector lending require domestic commercial banks to lend 40 per cent of their Adjusted Net Bank Credit (ANBC) with sub-targets for lending to agriculture (18 per cent) and weaker sections (10 per cent). The target achieved by Public Sector Banks under priority sector lending and agriculture sector lending (as on the last reporting Friday of March) for the three years is as under:

Advances to the Priority Sectors by Public Sector Banks

(As on the last reporting Friday)

(Rs. in Crore)

	Sector	March 2007	March 2008	March 2009
I.	Agriculture	2,02,614	2,49,397	2,98,211
	Percentage	(15.4)	(17.5)	(17.2)
II.	Weaker Section	94,285	1,26,935	1,66,843
	Percentage	(7.2)	(9.3)	(9.62)
III.	Total priority sector advances	5,21,376	6,10,450	7,20,083
	Percentage	(39.7)	(44.7)	(42.5)
IV.	Net Bank Credit	13,13,840	13,64,268	16,93,437

Source: RBI (Figures in brackets are percentage achievement)

It may be seen that the performance of public sector banks has improved. In the year 2006-07, the agriculture sector advances were 15.4%,

this was increased to 17.25% in the year 2008-09. Weaker Section advances have been increased from 7.2% in the year 2006-07 to 9.62% in the year 2008-09. The overall priority sector advances increased from 39.7% in 2006-07 to 42.5% in 2008-09.

Advances to the Priority Sectors by Private Sector Banks as on the last reporting Friday is as under:

(Rs. in Crore)

	Sector	March 2007	March 2008	March 2009
I.	Agriculture	52,034	58,567	76,062
	Percentage	(12.7)	(15.4)	(15.9)
II.	Weaker Section	5,229	7,228	15,844
	Percentage	(1.55)	(2.10)	(3.31)
III.	Total Priority sector advances#	1,44,549	1,64,068	1,90,207
	Percentage	(42.9)	(47.8)	(46.8)

Source: RBI (Figures in brackets are percentage achievement)

It may be seen that the performance of private sector banks has also improved. In the year 2006-07, the agriculture sector advances were 12.7%, this has increased to 15.7% in the year 2008-09. Weaker Section advances have been increased from 1.55% in the year 2006-07 to 3.31% in the year 2008-09. The overall priority sector advances increased from 42.9% in 2006-07 to 46.8% in 2008-09.

The shortfall in the agricultural lending/priority sector/weaker sections of the scheduled commercial banks is being utilized for the benefit of the rural areas and the weaker section through different funds like the Rural Infrastructure Development Fund (RIDF); Short Term Cooperative Rural Credit (STCRC) Refinance Fund; Micro, Small and Medium Enterprises (MSME) Refinance Fund; Rural Housing Fund etc. The allocation made by

RBI from the lending shortfall to these funds for the last two years is as under:

Amount allocated in the last two years

(Rs. in crore)

Name of the Fund	2008-09	2009-10
Rural Infrastructure Development Fund (RIDF)	14,000	14,000
Bharat Nirman Programme	4,000	6,500
Short Term Cooperative Rural Credit (STCRC) (Refinance) Fund 2009-10	5,000	5,000
Micro, Small and Medium Enterprises (MSME) Refinance Fund, 2009-10	4,000	4,000
Rural Housing Fund, 2009-10	1,200	2,000
Total	28,200	31,500

The Rural Infrastructure Development Fund (RIDF) has been getting allocations in the successive Union Budgets and NABARD has partnered with various State Governments in the creation of rural infrastructure. Over the years, the coverage under RIDF has been made more broad based in each tranche and at present, a wide range of 31 sectors under RIDF XV (2009-10) are being financed. The aggregate allocations under RIDF have reached the level of Rs. 1,34,000 crore.

Further, a separate window under RIDF has been created for partly funding the rural roads component of the Bharat Nirman Programme, Pradham Mantri Gram Sadak Yojana. So far, Rs. 18,500 crore has been allocated from the shortfall of priority sector lending for this programme.

In view of above it may be observed that the shortfall in priority sector lending by banks is being utilized by the Government of India for various infrastructure projects and other developmental activities in the rural areas and these funds are serving a very useful purpose for the rural and agricultural economy.

Recommendation (Para Nos. 13 & 14)

The Committee found that huge amount of funds had 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 had 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 could only point to the fact that the concerned Ministries/Departments did not have adequate capacity to utilize the allotted funds, thereby leaving the programmes and schemes under their purview incomplete and unattended. The Committee, therefore, desired 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 were not routinely surrendered every year. Further, the Committee also found 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 showed that even if the funds remained unutilised, the allocation of funds were not reduced in the subsequent year. The Committee, therefore, recommended 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 was also not clear as to what extent these surrenders were due to economy measures or due to non-implementation of the schemes/programmes. The Committee, therefore, desired 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.

Reply by the Government

The expenditure position of Union Government in the year 2009-10 is estimated as indicated below:

(Rs. in crore)

	2009-10	
	Budget Estimate	Revised Estimate
Non-Plan expenditure	695689	706371
Plan Expenditure	325149	315176
Total Expenditure	1020838	1021547

During the mid-year review of the budgetary allocation of all Ministries/ Departments at the time of finalization of Revised Estimates for the financial year, the expenditure position of all Ministries/Departments is taken into account. The budgetary allocations of those Ministries/Departments, which have not kept pace upto September of the financial year, are scaled down keeping in view of the absorptive capacity of the administrative Ministry/ Department concerned in the remaining part of the financial year. The savings so effected are re-deployed to other Ministries/Departments where additionalities are sought. The mid-year review is aimed at rational distribution of scarce resources of Government. As a result, Ministries/Departments, whose budgetary allocations are scaled down, are required to surrender the savings identified to the Ministry of Finance.

The budgetary allocations of the following Ministries/Departments were scaled down during 2009-10 consequent upon the mid-year review after taking into account the pace of expenditure and the absorptive capacity of the Ministry/Department concerned:

1. Department of Animal Husbandry, Dairying and Fisheries
2. Atomic Energy
3. Ministry of Coal
4. Department of Commerce
5. Department of Industrial Policy and Promotion
6. Department of Posts
7. Department of Information Technology
8. Department of Consumer Affairs
9. Department of Food and Public Distribution
10. Ministry of Culture
11. Ministry of Earth Sciences
12. Ministry of Environment & Forests
13. Department of Economic Affairs
14. Department of Financial Services
15. Department of Expenditure

16. Ministry of Food Processing Industries
17. Department of Health & Family Welfare
18. Department of Heavy Industry
19. Department of Public Enterprises
20. Ministry of Home Affairs
21. Police
22. Other expenditure of Ministry of Home Affairs
23. Ministry of Housing and Urban Poverty Alleviation
24. Department of School Education Literacy
25. Department of Higher Education
26. Ministry of Information & Broadcasting
27. Ministry of Labour & Employment
28. Ministry of Micro, Small and Medium Enterprises
29. Ministry of Mines
30. Ministry of New and Renewable Energy
31. Ministry of Panchayati Raj
32. Ministry of Planning
33. Ministry of Power
34. Department of Rural Development
35. Department of Land Resources
36. Department of Drinking Water Supply
37. Department of Science & Technology
38. Department of Scientific and Industrial Research
39. Department of Bio-Technology
40. Department of Shipping
41. Department of Road Transport and Highways
42. Department of Space

43. Ministry of Statistics and Programme Implementation
44. Ministry of Steel
45. Ministry of Tourism
46. Ministry of Tribal Affairs
47. Lakshadweep
48. Ministry of Water Resources

Apart from the above, there are other reasons for surrender of savings. One of the principal reasons is that re-distribution of savings available in one section to another section of the Grant like from Capital to Revenue section or vice-versa or from Voted to Charged section or vice-versa, which is done through the approval of Parliament, result in surrender of savings technically. Such savings are also taken as unspent provision, which is actually not the position, since these funds are deployed elsewhere as per requirements.

As regards capacity-building of Ministries/Departments, Finance Minister and Secretary, Department of Expenditure hold separate meetings with Financial Advisers of all Ministries/Departments during the course of the year, wherein the need to accelerate the expenditure is emphasized and at the same time they are advised to exercise caution and avoid making excessive projection in their budget proposals. The detailed guidelines relating to the methodology of preparing the detailed budget estimates are also enumerated elaborately in the General Financial Rules and in Budget Circular issued annually. As regards percentage of surrenders on account of savings/ implementation of economy measures and the percentage of surrenders due to non-utilization of funds, the surrenders effected through economy measures are subsumed in the overall savings effected through mid-year review and details of such savings through economy measures are not maintained centrally.

CHAPTER V

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF
WHICH FINAL REPLY OF THE GOVERNMENT
IS STILL AWAITED

-Nil-

NEW DELHI;
08 *December*, 2010
17 *Agrahayana*, 1932 *(Saka)*

YASHWANT SINHA,
Chairman,
Standing Committee on Finance.

ANNEXURE

MINUTES OF THE EIGHTH SITTING OF THE STANDING COMMITTEE ON FINANCE

The Committee sat on Wednesday, the 8th December, 2010 from 1500 hrs. to 1550 hrs.

PRESENT

Shri Yashwant Sinha — *Chairman*

MEMBERS

Lok Sabha

2. Dr. Baliram (Lalganj)
3. Shri C.M. Chang
4. Shri Bhakta Charan Das
5. Shri Gurudas Dasgupta
6. Shri Nishikant Dubey
7. Shri Bhartruhari Mahtab
8. Shri Rayapati Sambasiva Rao
9. Shri Magunta Sreenivasulu Reddy
10. Shri Manicka Tagore
11. Dr. M. Thambidurai

Rajya Sabha

12. Shri Raashid Alvi
13. Shri Vijay Jawaharlal Darda
14. Shri Moinul Hassan
15. Shri Satish Chandra Misra
16. Dr. Mahendra Prasad
17. Shri Y.P. Trivedi

SECRETARIAT

1. Shri A.K. Singh — *Joint Secretary*
2. Shri T.G. Chandrasekhar — *Additional Director*
3. Shri Ramkumar Suryanarayanan — *Deputy Secretary*

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

(i) Draft Report on action taken by the Government on the recommendations contained in the Eleventh Report (15th Lok Sabha) on Demands for Grants (2010-11) of the Ministry of Finance (Departments of Economic Affairs, Financial Services, Expenditure and Disinvestment);

(ii) Draft Report on action taken by the Government on the recommendations contained in the Twelfth Report (15th Lok Sabha) on Demands for Grants (2010-11) of the Ministry of Finance (Department of Revenue);

(iii) Draft Report on action taken by the Government on the recommendations contained in the Thirteenth Report (15th Lok Sabha) on Demands for Grants (2010-11) of the Ministry of Planning;

(iv) Draft Report on action taken by the Government on the recommendations contained in the Fourteenth Report (15th Lok Sabha) on Demands for Grants (2010-11) of the Ministry of Statistics and Programme Implementation; and

(v) Draft Report on action taken by the Government on the recommendations contained in the Fifteenth Report (15th Lok Sabha) on Demands for Grants (2010-11) of the Ministry of Corporate Affairs.

3. The Committee adopted the draft reports with minor modifications. The Committee also authorized the Chairman to present all the Reports to Parliament in the current session.

The Committee adjourned at 1550 hours.

APPENDIX

(*Vide* Para 4 of the Introduction)

ANALYSIS OF THE ACTION TAKEN BY THE GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE ELEVENTH REPORT OF THE STANDING COMMITTEE ON FINANCE (FIFTEENTH LOK SABHA) ON DEMANDS FOR GRANTS (2010-11) OF THE MINISTRY OF FINANCE (DEPARTMENTS OF ECONOMIC AFFAIRS, FINANCIAL SERVICES, EXPENDITURE AND DISINVESTMENT)

		Total	% of Total
(i)	Total number of Recommendations	18	
(ii)	Recommendations/observations which have been accepted by the Government (*Vide* Recommendations at Sl. Nos. 1, 4, 5, 6, 10, 11, 12, 15, 16, 17 and 18)	11	61.11
(iii)	Recommendation/observation which the Committee do not desire to pursue in view of the Government's replies	Nil	0.00
(iv)	Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee (*Vide* Recommendation at Sl. Nos. 2, 3, 7, 8, 9, 13 and 14)	7	38.89
(v)	Recommendation/observation in respect of which final reply of the Government is still awaited	Nil	0.00

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The Souvenir Items with logo of Parliament are also available at Sales Counter, Reception, Parliament House, New Delhi. The Souvenir items with Parliament Museum logo are available for sale at Souvenir Shop (Tel. No. 23035323), Parliament Museum, Parliament Library Building, New Delhi. List of these items are available on the website mentioned above."