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STANDING COMMITTEE ON FINANCE
(2012-13)

FIFTEENTH LOK SABHA

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

[Action taken by the Government on the recommendations contained in Fifty First Report on Demands for Grants (2012-13) of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services & Disinvestment)]

SIXTIETH REPORT

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

December, 2012/ Agrahayana, 1934 (Saka)

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Presented to Lok Sabha on 6 December, 2012
Laid in Rajya Sabha on 6 December, 2012

LOK SABHA SECRETARIAT
NEW DELHI

December, 2012/ Agrahayana, 1934 (Saka)

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**** Not appended in the cyclostyled copy***

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Shri Yashwant Sinha - Chairman

MEMBERS

LOK SABHA

2. Shri Suvendu Adhikari
3. Dr. Baliram
4. Shri Udayanraje Bhonsle
5. Shri Nishikant Dubey
6. Shri Gurudas Dasgupta
7. Shri Rahul Gandhi
8. Shri Deepender Singh Hooda
9. Shri Chandrakant Khaire
10. Shri Bhartruhari Mahtab
11. Dr. Chinta Mohan
12. Shri Sanjay Brijkishorlal Nirupam
13. Shri Prem Das Rai
14. Shri S.S. Ramasubbu
15. Dr. Kavuru Sambasiva Rao
16. Shri Adv. A. Sampath
17. Vacant*
18. Shri Thakur Anurag Singh
19. Dr. M. Thambidurai
20. Shri Shivkumar Udasi
21. Shri Dharmendra Yadav

RAJYA SABHA

22. Shri Naresh Agrawal
23. Shri Rajeev Chandrasekhar
24. Smt. Renuka Chowdhury
25. Shri Piyush Goyal
26. Shri Satish Chandra Misra
27. Dr. Mahendra Prasad
28. Shri Ravi Shankar Prasad
29. Shri P. Rajeeve
30. Shri Praveen Rashtrapal
31. Dr. Yogendra P. Trivedi

SECRETARIAT

1. Shri A.K. Singh - Joint Secretary
2. Shri Ramkumar Suryanarayanan - Additional Director

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* Shri Sarvey Sathyanarayana, MP ceased to be the Member of the Committee w.e.f 28.10.2012 consequent upon his induction to the Union Council of Ministers

INTRODUCTION

I, the Chairman of the Standing Committee on Finance, having been authorised by the Committee, present this Sixtieth Report on action taken by Government on the recommendations contained in the Fifty First Report of the Committee (Fifteenth Lok Sabha) on Demands for Grants (2012-13) of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services & Disinvestment).

2. The Fifty First Report (15th Lok Sabha) was presented to Lok Sabha/laid in Rajya Sabha on 24 April, 2012. Replies indicating action taken on all the recommendations contained in the Report were furnished by the Government on 1 August, 2012 and 19 November, 2012.

3. The Committee considered and adopted this report at their sitting held on 29 November, 2012.

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

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

New Delhi;
<u>4 December, 2012</u>
13 Agrahayana, 1934 (Saka)

YASHWANT SINHA
Chairman,
Standing Committee on Finance

REPORT

CHAPTER I

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 Fifty-first Report on the Demands for Grants (2012-13) of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment) which was presented to Lok Sabha and laid in Rajya Sabha on 24 April, 2012.

2. The Report contained 15 recommendations. Action taken notes received from the Ministry on 1 August 2012 in respect of all the recommendations contained in the report were scrutinized and the Ministry were asked to furnish revised action taken replies as most of the replies furnished by them were vague and sketchy. Accordingly, the revised action taken replies have been received from the Ministry on 19 November, 2012. The replies have been categorised as follows:

(i) Recommendations/Observations that have been accepted by the Government:
Recommendation Nos.1, 2, 3, 5, 6,7, 8,9,10,12,13,14 and 15

Total: 13

(Chapter II)

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

Total: Nil

(Chapter III)

(iii) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee: 4 and 11

Total: 02

(Chapter IV)

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

Total : Nil

(Chapter V)

3. The Committee in their earlier Report on Demands for Grants (2011-12) of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment) had cautioned them to be careful and avoid furnishing replies which are inconclusive, vague or couched in general terms like 'Noted' or 'Accepted'. The Committee, however, find from the action taken replies that the Ministry have even this time failed to adhere to the procedures in furnishing replies. The Committee express their displeasure that the specific queries / clarifications raised in this regard have not been addressed by the Ministry even in their revised action taken replies. The Committee desire specific replies to the comments contained in Chapter I of this Report be furnished to them expeditiously, in any case not later than three months of the presentation of this Report.

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

A. Analysis of Demands for Grants (2012-13)

(Recommendation Sl. Nos.1, 2 and 3)

5. As there had been significant and persistent variation between Budget Estimates(BE), Revised Estimates (RE) and Actuals year after year in Demand No.32 of the Department of Economic Affairs and Demand No.33 of the Department of Financial Services, the Committee recommended the Ministry of Finance to take corrective measures to arrest such an unscientific trend of projection of fund requirements and for ensuring an objective and realistic formulation of budget estimates and balanced utilization of funds.

6. Further, the Committee while strongly disapproving of providing huge amount of Rs.400 crore in BE 2011-12, which was surrendered *in toto*, to Security Printing and Minting Corporation of India Ltd. (SPMCIL), pending finalization of processes and procedures urged the Ministry to avoid such ritualistic allocations, which remain only on paper.

7. The Ministry in their action taken replies while putting forth the major reasons for variation between BE/RE and Actuals have *inter-alia* stated that:-

"Demand No.32 of the Department of Economic Affairs:

…The additionalities pertained to providing Rs.1066.46 crore for initial transfer to the 'National Clean Energy Fund'; Rs.501.90 crore for GOI's contribution to the corpus of NSDF and equity in NSDC; Rs. 1609.79 crore for payment to IMF towards India's MOV obligations; and Rs.9003.04 crore was made at RE 2011-12 for the Note Purchase Agreement (NPA) roll over towards loans to IMF under New Arrangements to Borrow(NAB). All these additionalities were met through Supplementary Demands for Grants.

From the above mentioned item-wise explanation it may be observed that major savings and excesses were due to reasons beyond the control of the Department and due to requirements which could not be anticipated while finalising the Revised Estimates and Budget Estimates.

Budgetary Support to SPMCIL:-

The proposal for providing financial assistance to SPMCIL had been under consideration of this Ministry and a decision was taken to make a provision for Rs.400 crore in the Budget Estimates. It was anticipated that the procedural requirements/formalities would get completed within the Financial Year. However, the exercise could not be completed. Subsequently, the matter was re-examined and a decision was taken that there does not appear to be any need to provide financial assistance to SPMCIL at this stage. Accordingly, it was decided to surrender the provision made in the Budget Estimates 2012-13 at RE Stage.

The Observation made by the Committee has been taken note of and in future, due care will be taken by the Department while projecting the Budget Estimates.

Demand No.33 of the Department of Financial Services

In 2009-10, as against BE provision of Rs. 38,413.54 crore, RE was raised to Rs. 41,117.84 crore, on account of additional requirement of funds amounting to Rs.

800.00 crore towards Government's contribution for revival package for strengthening the Short-Term Cooperative Credit Structure (STCCS) and Rs. 2466.00 crore to augment the capital base of certain nationalised banks. Actual expenditure was Rs. 37,864.82 crore mainly because of savings in respect of following Schemes:-

(a) Savings of Rs. 1692.15 crore in respect of payment of interest to lending institutions towards Agricultural Debt Waiver & Debt Relief Scheme (ADWDRS), 2008. …
(b) Savings of Rs. 1000.00 crore in respect of revival of Long-Term Cooperative Credit Structure (LTCCS) which is discussed separately below.

(c) Savings of Rs. 1542.00 crore (under Plan) in respect of acquisition of RBI stake in National Bank for Agriculture and Rural Development (NABARD) and National Housing Bank (NHB) arose because procedural formalities involved in this transaction could not be completed and RBI requested for maintaining status-quo in the matter.

In 2010-11, as against BE provision of Rs. 49,609.10 crore, RE was raised to Rs. 60,236.54 crore on account of additional requirements indicated below:-

(a) Rs. 4000.00 crore in respect of Farmers' Debt Relief Fund.
(b) Rs. 1000.00 crore in respect of interest subvention for providing short term credit to farmers.
(c) Rs. 3657.00 crore in respect of capitalisation of Public Sector Banks.
(d) Rs. 1430.00 crore in respect of acquisition of RBI's stake in NABARD.
(e) Rs. 350.00 crore for re-capitalisation of Regional Rural Banks.

Actual expenditure was Rs. 57,425.37 crore because of savings, in respect of following Schemes:-

(a) Rs. 1000.00 crore in respect of revival of Long-Term Cooperative Credit Structure (LTCCS) which is discussed separately below.
(b) Rs. 661.45 crore in respect of 1% interest subvention on housing loans, since claims under the scheme were not received up to the expected level.
(c) Rs. 659.53 crore in respect of ADWDRS, 2008 since reimbursement claims were lower than estimated.
(d) Rs. 450.00 crore, in respect of acquisition of RBI stake in NHB which could not materialise even during 2010-11 since the required amendment in the NHB Act could not be completed.
(e) Rs. 300.00 crore in respect of equity support to India Infrastructure Finance Company Limited (IIFCL) since the level of authorised capital of IIFCL could not be raised during 2010-11 to enable release of funds towards further equity support.
(f) Rs. 283.51 crore in respect of Government's share for re-capitalisation of Regional Rural Banks. The saving arose since State Governments and concerned sponsor banks could not release their share which was required before releasing Central Government's share.

During 2011-12, as against BE provision of Rs. 23,705.94 crore, RE was reduced to Rs. 21,761.97 crore. While expenditure up to December, 2011 was Rs. 2984.57 crore, final expenditure was Rs. 20823.04 crore".

8. To a specific query as to whether repetitive allocation and thereafter of Rs.1000 crore each in the years 2009-10, 2010-11 and 2011-12, which was surrendered *in toto*, to the scheme namely, "Revival of Long-Term Cooperative Credit Structure (LTCCS)" and further allocation of Rs.500 crore in BE 2012-13, is budgetary prudent pending finalization of the package and measures proposed to avoid such practice in budget allocation in future, the Ministry in their revised action taken notes have stated as follows:-

"…..The report of the Task Force has been accepted by the Government. A revival package for LTCCS is under consideration. In BE 2012-13, there is a budget allocation of Rs 500 crore for implementation of the package. As the revised package has not yet been approved, provision in 2012-13 is proposed to be reduced to token amount of Rs. 0.01 crore in RE. The observations of the Committee have been noted for compliance".

9. The Committee had in their earlier Report had advised the Ministry to avoid budgetary support to a profit making miniratna category-I company namely, Security Printing and Minting Corporation of India Ltd. (SPMCIL). In BE 2011-12, a sum of Rs.400 crore was allocated to SPMCIL only to be surrendered at RE stage, pending finalization of revival package. Again in BE 2012-13, budgetary support of Rs.400 crore was made to SPMCIL. The Committee find from the action taken reply that the Ministry would once again be surrendering BE of Rs. 400 crore in RE.

10. In another scheme namely, Revival of Long-Term Cooperative Credit Structure (LTCCS), the Committee had commented upon repetitive allocation of Rs.1000 crore in each of the years 2009-10, 2010-11 and 2011-12 which was surrendered in *toto* pending finalization of revival package. The Ministry also

provided further allocation of Rs.500 crore in BE 2012-13 which would now be reduced to Rs.0.01 crore at RE stage.

11. While reiterating their earlier recommendation for not providing budgetary support in normal circumstances to profit making PSUs like SPMCIL, the Committee would recommend the Ministry to avoid tokenism in provisioning of funds and premature allocations without approval of schemes.

B. Release of funds for Central Assistance Schemes

(Recommendation Sl. No.4)

12. The Committee noted that funds released through the Demand No. 35, Department of Expenditure remain grossly underutilized year after year under most of the Central Assistance Schemes for the reasons, as advanced by the Ministry, such as shortfall mainly relate to mismatch between the funds earmarked and the amount recommended for release by the nodal Ministries to States, delay in receiving proposals from the nodal Ministries and fulfillment of requisite conditions. Since the funds for Central Assistance Schemes are released to States based on the recommendations of the line Ministries, the Committee expressed their view that the Demand for these funds may be raised through Demands of the nodal Ministries concerned instead of through Demand No. 35. The Committee, therefore, desired that instead of resorting to allocation exercise, the Department of Expenditure should focus on carrying out its principal activity of overseeing public expenditure management including quality of development expenditure at a time when the Government is striving for fiscal consolidation.

13. In their action taken reply, the Ministry have stated the following:-

"Transfer of funds to States under Demand No. 35 operated by the Department of Expenditure contains the transfer to State Governments on account of (a) Non-Plan grants, particularly the grants recommended by the Finance Commission and (b) Plan Grants on account of Block grants such as Normal Central Assistance (NCA), ACA for Externally Aided Projects (EAPs), Special Plan Assistance (SPA) and some State Plan Schemes.

As regards the Finance Commission related grants there cannot be any other nodal Ministry and the same would have to be essentially released by Ministry of Finance in consultation with concerned line Ministries ensuring dovetailing with similar related programmes. Similarly, releases under Block Grants and some State Plans Schemes, such as NCA, ACA for EAPs, SPA, SCA (untied) and Backward Regions Grant Fund (State Component), as allocated/recommended by Planning Commission need to be released by Ministry of Finance as it alone can deal with block/State and situation specific general project grants. For other State Plan Schemes such as AIBP, JNNURM, National Social Assistance Programme (NSAP), necessary administrative mechanisms are established in the Department of Expenditure. This system of release of plan and non-plan grants for the State's Annual Plan, Centre's share of State's Calamity Relief Funds, Assistance from National Calamity Contingency Fund, up-gradation grants and grants for rural/urban local bodies and other grants as recommended by the successive Finance Commissions through Demand No. 35 is supported by the Allocation of Business Rules of Government of India. The monitoring of the position of States' finances by the Ministry of Finance also allows overseeing resources and allocation in totality.

The releases under different heads of Grant No. 35 are made in accordance with the recommendations of the respective line Ministries/Planning Commission and fulfillment of prescribed conditions. Hence, the reason for any underutilization of grants may not be attributable to the placement of funds in the Demand No. 35. Department of Expenditure, upon fulfillment of the scheme specific conditional ties, expeditiously processes the releases. This is also supported by the fact that against an BE/RE provision of Rs. 80741.61 crore under Grant No. 35, releases amounting to Rs. 80075.79 crore were made during 2011-12, which is 99% of the total RE under the Demand".

14. As the reply furnished by the Ministry failed to address the above observation / recommendation made by the Committee, the Ministry were asked to submit a revised action taken replies. Accordingly, the Ministry in their written replies have stated as follows:-

"Overlapping of expenditure Heads between the line Ministries and the Department of Expenditure:-

Central grants to the States by the Central Ministries are released under a common Major Head of account, i.e. 3601-Grants-in-Aid to State Governments. Different line Ministries may operate through same Head of account. The scheme-wise and object-wise distinction takes place at Sub-head and Object-head level of accounting which is generally distinct for each scheme without overlapping of booking of expenditure.

Allocation of funds through Demands of the nodal Ministries concerned instead of through Demand No.35 by the Department of Expenditure:-

> Releases under Demand No. 35, operated by Department of Expenditure, includes Non-Plan grants recommended by Finance Commission, block grants and State Plan Schemes such as Normal Central Assistance (NCA), Special Central Assistance (SCA), One-time Central Assistance (OTCA), Backward Region Grants Fund (State component) as allocated/recommended by the Planning Commission, etc. for providing central assistance to the State Plans. There is no nodal Ministry for releasing the Finance Commission grants and block grants. Central assistance to the State Plans is being released on the recommendation of the Planning Commission/line Ministries concerned to address needs of the States in critical areas. Release from a nodal Demand for all the schemes being operated for providing Central assistance to the State Plans enables Department of Expenditure (DoE) and Planning Commission to assess the State/situation specific quantum of assistance to be provided to the States for supporting their Annual Plans and review thereof.

Public expenditure management is being performed by DoE through its internal structures as well as through the system of Integrated Financial Advisers who closely work with all the line Ministries. Providing Central Assistance for State Plans through single Demand No. 35 is an operational requirement for the reasons enumerated in the Para above.

Measures proposed to rectify the discrepancies caused for shortfall in utilization of grants:-

> There is no shortfall in utilization of grants related to block assistance. For project based grants, respective line Ministries are advised to ensure that the proposals recommended in conformity with provisions of approved guidelines of the schemes are evenly spaced throughout the year ensuring that the funds released are utilized properly and adequately by the States concerned. Further, line Ministries pursue with the States to complete the sanctioned projects as per prescribed time line, timely submission of proper utilization certificates and completion of requisite conditionalities before seeking release of 2nd and subsequent instalments".

15. The Committee had *inter alia* recommended that instead of resorting to allocation exercise to various Central Assistance Schemes, Block Grants and State Plan Schemes through Demand No.35, the Department of Expenditure should focus on carrying out its principal activity of overseeing public expenditure management including quality of development expenditure at a time

when the Government is striving for fiscal consolidation. The Ministry in their action taken reply have, however, not accepted the recommendation of the Committee by stating that (i) there is no nodal Ministry for releasing the Finance Commission Grants and Block Grants; (ii) releases under different Heads of Central Assistance to the State Plans is being released on the recommendation of the Planning Commission/line Ministries; (iii) though the line Ministries operates through the same Head of Account i.e 3601-Grants-in-Aid to State Governments for release of central grants to the States, distinction takes place at sub-head and object-head level without overlapping of expenditure; and (iv) the monitoring of the position of States' finances by the Ministry of Finance allows overseeing resources and allocation in totality. The Committee are, however, not convinced with reply of the Ministry, as the extant practice of allocation of funds for various central assistance schemes through Demand No.35 inevitably leads to ineffective monitoring, weak accountability, and above all, conflict of interest of the Department of Expenditure in allocating funds and monitoring expenditure. In this context, the Committee while reiterating their recommendation, desire the Ministry to set up an Expert Group to rationalize the existing Demands of the Ministries / Departments relating to Central Assistance Schemes, Block Grants and State Plan Schemes in the light of the recommendation of the Committee .

C. Fiscal Consolidation

(Recommendation Sl. No.6)

16. The Committee had been expressing their reservation over the Government's fiscal roadmap without specifying the action plan to achieve the same. They apprehended that the possibility of occurrence of fiscal slippages again in the year 2012-13 is distinct. The Committee, therefore, desired that the Government should chalk out their fiscal roadmap in concrete terms to achieve the desired outcomes.

17. The Ministry have furnished their action taken replies as under:-

"The Government resumed the process of fiscal consolidation in 2010-11, after a pause of two difficult financial years in 2008-09 and 2009-10. However, uncertainty in the global economy impacted the growth trend in India as well and the process had to be paused during 2011-12. By bringing back the focus on fiscal consolidation process, government has undertaken measures to reduce the fiscal deficit from 5.9 per cent of GDP in RE 2011-12 to 5.1 per cent of GDP in BE 2012-13.

The fiscal deficit target for 2012-13 is higher than 4.2 per cent of GDP recommended by the 13th Finance Commission and 4.1 per cent of GDP targeted in MTFP Statement for 2011-12. Higher deficit may be seen in the context moderation in growth in economy from the potential growth rate. Impact of higher than recommended level of fiscal deficit on total debt and liabilities of the Central Government during 2011-12 and 2012-13 is partially offset due to better performance in 2010-11 and 2011-12. The government is committed to continue the process of fiscal consolidation during 2013-14 and 2014-15. With necessary policy measures, fiscal deficit is projected to decline to 4.5 per cent of GDP in 2013-14 and 3.9 per cent of GDP in 2014-15. At the same time, effective revenue deficit is projected to decline from 1.8 per cent of GDP in BE 2012-13 to 1 per cent of GDP in 2013-14 and get eliminated in 2014-15. Though the deficit levels projected are higher than the 13th Finance Commission recommended target of 3 per cent of GDP in 2013-14 and 2014-15, it is estimated that debt and liabilities would still be lower as percentage of GDP at 44.0 per cent and 41.9 per cent in the two respective years that the recommended debt target for these two years at 47.5 per cent and 44.8 per cent of GDP respectively.

The fiscal consolidation roadmap is designed with a mix of reduction in total expenditure as percentage of GDP and improvement in tax to GDP ratio. With economy estimated to grow at higher rate than 2011-12, it would be possible to further improve the tax to GDP ratio. With re-prioritization of expenditure towards developmental side and curtailing the growth in non-developmental expenditure, total expenditure is projected to decline from 14.7 per cent of GDP in 2012-13 to 14.1 per cent of GDP in 2013-14 and 13.6 per cent of GDP in 2014-15. Efforts are being made to bring down total expenditure of the government as percentage of GDP to the above projected level".

18. When asked to list out the measures that have been taken to reduce the fiscal deficit, the Ministry have stated in their revised action taken replies as follows:-

"The Government has reverted back to the path of fiscal consolidation with gradual exit from the expansionary measures in a calibrated manner. The reduction in fiscal deficit from 5.9 per cent of GDP estimated in RE 2011-12 to 5.1 per cent of GDP in BE 2012-13 is designed with a mix of reduction in total expenditure as percentage of GDP and improvement in gross tax revenue as percentage of GDP. Government has taken the following steps to contain the fiscal deficit :

- In the current financial year, Government has imposed economy measures like rationalization of expenditure and optimization of available resources with a view to improve macroeconomic environment. This include 10% mandatory cut on Non Plan expenditure in the current financial year, ban on creation of Plan and Non Plan posts, restrictions on foreign travel, restrictions on re-appropriation of funds, strict observance of discipline in fiscal transfers to States, Public Sector Undertakings, Autonomous Bodies, etc.

- Government has also proposed to introduce 'Medium-Term Expenditure Framework Statement', setting forth a three-year rolling target for expenditure indicators with a view to undertaking a de-novo exercise for allocating resources for prioritized schemes and weeding out others that have outlived their utility. It would also encourage efficiencies in expenditure management.

- Government also endeavours to restrict the expenditure on Central subsidies. Similar steps are expected to be continued in the coming years to contain the fiscal deficit".

19. The Committee are constrained to note that as apprehended, the fiscal deficit target for 2012-13 has slipped to 5.3 per cent in RE from BE 5.1 per cent. The action taken reply is elusive on specific details of the sectors / schemes identified in curtailing the growth in non-developmental expenditure during the financial year and progress made so far. Keeping in view the gloomy economic situation, estimated slowdown of GDP growth rate to 5.5 per cent or so in 2012-13, widening Current Account Deficit (CAD) and impact of lesser GDP growth on revenue mobilization, the Committee cannot but deplore the lackadaisical approach of the Government towards achieving fiscal deficit target. The Committee would strongly recommend that the Government must take specific measures with reference to sectors/schemes to contain the fiscal deficit.

D. Classification of Expenditure

(Recommendation Sl. No.7)

20. The Committee noted that the recommendations of the Expert Committee on classifications of Plan and Non-Plan expenditures, and to review the list of major and minor heads of accounts were under consideration of the Government. In this context, the Committee desired that in consonance with the effort of the Government in addressing the structural component of imbalance in the revenue account, namely consumptive expenditure, without sacrificing development related expenditure, the Government might accordingly review the present classification of Plan and Non-Plan expenditures and consider reclassifying the same broadly as Developmental and Non-Developmental Expenditure.

21. In their action taken replies, the Ministry have stated the following:-

> "The Government accounting follows the classification of receipts and expenditure primarily on functional basis like tax collection, defence expenditure,

education, health, welfare of SC/ST, transport, communication, etc. through different sectors viz. general, social and economic sectors. This is followed uniformly across various sections of Government accounts such as revenue receipts, revenue expenditure, capital outlays and loan heads. The distinction between 'Plan' and 'Non-Plan' expenditure lies in the perception that while 'Non Plan' expenditure is generally towards maintenance costs of assets, expenditure for running an establishment, servicing of debt, defence expenditure, internal security, social security expenditure (pensions), subsidy, 'Plan' is on the other hand towards meeting the objectives/targets of the Government enshrined in five-year Plan document. However, the same cannot be categorized as 'non-developmental' and 'developmental' as such classification dis-orients the purposes of different nature of expenditure. For example, though the expenditure on defence services, internal security, etc. are categorized as 'non-plan' expenditure for the purpose of allocation of resources, they cannot be strictly called 'non-developmental' in nature as the external and internal security of the nation is paramount in nature. Similarly, the expenditure on interest payment is towards servicing of debt, which is taken towards financing both Plan and Non-Plan expenditure.

In addition, this Ministry has been bringing out a booklet detailing the Central Government budgetary transactions on economic classification to make the budget a more useful tool of economic analysis. This classification involves arranging the expenditures and receipts of the Central Government including those of railways and posts by significant economic categories distinguishing current from capital outlays, spending for goods and services from transfers to individuals and institutions, tax receipts from other receipts, and from borrowing and inter-governmental loans and grants etc. Since the national income type of government account is the most prevalent form of an economic classification, the methodology and concepts used in this analysis are those used in the national income accounting system. Considering the economic planning in the country, annual plan outlays have been integrated with the budgetary outlays which called for a further analysis of budgetary outlays into functional categories. Such a functional classification helps in analysing how much the Central Government is allocating to different functions or purposes in accordance with the priorities laid down in the Plan.

With the different kinds of classification of Government budgetary transactions already in vogue, re-classification of the existing system of classification (Plan and Non Plan) into 'developmental' and ‘non-developmental' may not be appropriate and practical”.

22. On being pointed out that the reply is silent on the status of implementation of the recommendations of the Expert Committees on classifications of Plan and Non-Plan expenditures, and to review the list of major and minor heads of

accounts. It is also not clear as to whether the above-said recommendation of the Standing Committee on Finance has been taken up with the Planning Commission.

23. It was also pointed out that it has not been clarified as to how the Government, without reclassification of Plan and Non-Plan expenditures into developmental and non-developmental, would make transparent the process of addressing the structural component of imbalance in the revenue account, namely consumptive expenditure, without sacrificing development related expenditure. On these issues, the Ministry have submitted their replies as under:-

> "The report of the High Level Expert Committee on Efficient Management of Public Expenditure, headed by Dr. C. Rangarajan, Chairman, Economic Advisory Council to the Prime Minister, which contained as one of the recommendations for abolition of the Plan/Non-Plan distinction in the Budget, has been presented to the Planning Commission in July, 2011. This Ministry has also taken up with the Planning Commission for analyzing the recommendations of the Committee in order to take appropriate proposal to the Cabinet for approval vide our letter dated 14.12.2011…. In view of this position, it would not be appropriate to further classify the Government expenditure into Developmental and Non-Developmental.
>
> As regards the report of the Committee constituted under the Chairperson of the Controller General of Accounts to review the list of Major Heads and Minor Heads of Accounts. Government has already constituted an Implementation Committee under the chairpersonship of Joint Secretary (Budget) to oversee the ways of implementation of the recommendations of the Committee. The revision of Charter of Accounts, applicable to both Union and States, is strenuous task and is likely to take a considerable time".

24. The Committee find from the action taken reply furnished by the Ministry that since abolition of the Plan / Non-Plan distinction in the Budget, as recommended by the Rangarajan Committee, is under consideration of the Planning Commission, it would not be appropriate to further classify the Government expenditure into Developmental and Non-Developmental. The Committee would like the Ministry to take up the issue with the Planning Commission and Prime Minister's Economic Advisory Council for reclassification of expenditure as suggested by the Committee.

E. Expenditure Management

(Recommendation Sl. No.9)

25. The Committee while strongly conveying their disapproval of erratic expenditure management by the line Ministries and lackadaisical attitude of the Ministry of Finance towards them, recommended the Ministry of Finance to review the methodology of monitoring the progress of expenditure and strengthen the mechanism to avoid rush of expenditure in the last quarter. In this context, the Committee recommended that the Ministries might be classified and rated based on their overall performance with reference to timely utilization of budgeted funds and progress in implementation of schemes etc.

26. The Ministry in their action notes have submitted the following:-

> "The Ministry of Finance/Government of India has extended the Cash Management System to 46 Demands for Grants with effect from 1.4.2012. Further, the following initiatives are being taken to strengthen the mechanism for better monitoring of the expenditure;-
>
> (i) Ministries not covered under the Cash Management System are also required to formulate Monthly Expenditure Projection (MEP) and Quarterly Expenditure Allocation (QEA) and furnish the same to Cash Management Cell;
>
> (ii) A system for exchange of data between the office of CGA and Cash Management Cell is being established".

27. Further, when specifically asked about the effectiveness of the aforesaid measures, the Ministry in their revised action taken replies have just reproduced the above reply.

28. Despite drawing the attention of the Ministry to the fact that the action taken reply is silent on the recommendation of the Committee in regard to classification and rating of the Ministries based on their overall performance with reference to timely utilization of budgeted funds and progress in implementation of schemes etc., the revised action taken replies furnished by the Ministry are silent on these issues. The Committee would like to be apprised of the specific

action taken on the recommendation of the Committee within a period of two months of presentation of the Report.

F. Creation of Corpus with lending-shortfall under priority sector lending

(Recommendation Sl.No.11)

29. The Committee had been repeatedly emphasizing the creation of a corpus exclusively with lending shortfall meant for agriculture under priority sector lending as the extant practice of diverting them into various funds and utilizing for development of other related sectors of agriculture is neither tenable nor acceptable. The Committee noted that the Ministry of Finance (Department of Financial Services) had failed to address the specific issue raised by the Committee. The Committee, therefore, while reiterating their earlier recommendation, expected the Government to furnish a specific reply within a month from the date of presentation of this Report.

30. The action taken reply as furnished by the Ministry is given below:-

"According to RBI guidelines on Priority Sector Lending, domestic scheduled commercial banks having a shortfall in lending to Priority Sector lending target (40%) or agriculture lending target (18%) or weaker section target (10%) shall be allocated amounts for contribution to RIDF established with NABARD or funds with other financial institutions as specified by RBI. The corpus of RIDF is decided by Government of India (GoI) every year.

GoI has been allocating funds every year to RIDF which is utilized for creation of basic infrastructure in rural areas. The activities covered under RIDF are related to agriculture and related sectors, rural connectivity and social sectors. The investments made under agriculture and related sectors which include 22 broad activities like minor irrigation, community irrigation wells, soil conservation, flood protection, watershed development, market yards, rural godowns, cold storages, fishing harbours/jetties, modern abattoirs, etc, are expected to give a fresh impetus to the growth of agriculture sector besides increased credit flow to the sector leading to fresh capital formation and increased productivity. Support under RIDF for providing rural connectivity through roads and bridges will lead to speedy transportation of inputs and marketing of agricultural produce. A lion's share of the number of projects and amount sanctioned under RIDF are accounted for by agriculture and related sector coupled with rural connectivity sector. Viewed from this angle**,** infrastructure created through RIDF increases the access of farmers to market which has a multiplier effect including the absorption of credit in agriculture sector. Details of sectors and disbursement during the years 2009-10,2010-11 and 2011-12under RIDF are given below:

RIDF - SECTOR-WISE DISBURSEMENT DURING LAST THREE YEARS

(Rs. in crore)

S.No.	SECTORS	2009-10	2010-11	2011-12
1	Irrigation	3374	3294	3878
2	Agri Related	1205	921	1903
3	Roads & Bridges	5747	5411	6342
4	Social sector	1986	2312	1995
5	Power	76	122	50
6	Ware-housing Refinance	0	0	759
TOTAL		**12388**	**12060**	**14927**
NRRDA		6500	0	0
GRAND TOTAL		**18888**	**12060**	**14927**

……In the Budget speech 2011-12 an amount of Rs.2,000 crore was earmarked for rural warehousing in the country from the allocation of Rural Infrastructure Development Fund (RIDF). In the year 2012-13 an amount of Rs.5,000 crore has been allocated exclusively for creating warehousing facilities under RIDF………..

In view of the position explained in above paras, the banks deposit the shortfall of the priority sector targets/ sub- targets into RIDF which is used for development of agriculture and related sectors, social sectors and rural connectivity. Hence, creation of a permanent corpus for financing exclusively for agriculture is presently is not required as amount under RIDF is used for agriculture and rural infrastructure development".

31. The reply furnished by the Ministry again failed to address the specific issue raised by the Committee i.e. creation of a corpus exclusively with lending shortfall meant for agriculture under priority sector lending. In contrast, the Ministry replied in detail about the flow of agricultural credit. The Ministry were, therefore, asked to comment on the following:-

i) Diverting the lending shortfall meant for agriculture under priority sector lending to RIDF may increase the access of farmers to market but the farmers lose their cheaper credit under priority sector lending as compared to agricultural loan offered by the Banks.

ii) The Committee recommended to create a corpus exclusively with lending shortfall meant for agriculture under priority sector lending, not a permanent corpus for financing exclusively for agriculture as replied by the Ministry".

32. Asked to comment upon the need for creation of separate fund with lending-shortfall meant for agriculture under priority sector lending during informal discussion held with the representatives of National Bank for Agriculture and Rural Development (NABARD) on 18 June, 2012 in Guwahati, the NABARD submitted a written reply as under:-

"Rural infrastructure projects supported under RIDF are not revenue generating projects and repayments by State Governments are mainly coming out of budgetary resources. Considering this, RIDF is the low-cost long-term fund to State Governments. Over the years, many State Government Departments are participating in RIDF and coming up with greater diversification in submission of projects.

Presently, the allocation to RIDF is announced annually in the Union Budget and the funds are made available from the shortfall in lending to priority sector and or agriculture sector and weaker sections targets of the commercial banks. As a result, there is an element of uncertainty and anxiety in all quarters before every Union Budget as regards continuance of RIDF.

It is, therefore, suggested that instead of making allocation every year, creating a separate fund with NABARD would go a long way to give a boost to the rural infrastructure. Since infrastructure funding requires long term funding because of the nature of investment, it is suggested that the capital gain bonds, tax free bonds may be restored to NABARD to get the access of cheaper sources of fund".

33. On the above-mentioned issues, the Ministry in their written replies have responded as follows:-

"………The Government every year sets target for flow of agricultural credit. The target for 2012-13 has been set at Rs. 5,75,000 crore which represents an increase of Rs. 1,00,000 crore over previous year. It may also be seen that the aggregate credit to agricultural sector has been not only increasing but also exceeding targets every year. The share of small farmer / marginal farmer is also increasing.

Since the corpus of RIDF and other funds is set aside from the short fall of banks in achieving priority sector lending in the preceding year, it would not be possible to allocate funds to RIDF and other funds for more than one year.

In view of the position explained in above paras, the banks deposit the shortfall of the priority sector targets/ sub- targets into RIDF which is used for development of agriculture and related sectors, social sectors and rural connectivity. Hence, creation of a permanent corpus for financing exclusively for agriculture is presently not required as amount under RIDF is used for agriculture and rural infrastructure development".

34. The Committee in their earlier Reports had been expressing their concern that the extant practice of depositing shortfall in priority sector lending meant for agriculture in Rural Infrastructure Development Fund (RIDF) is neither tenable nor acceptable mainly on the ground that farmers are being deprived of agricultural loans at cheaper interest rate available under priority sector lending. The Committee are constrained to note that the Ministry have chosen not to set up a corpus exclusively with lending shortfall meant for agriculture under priority sector lending. In the light of the reply of the Ministry, the Committee while reiterating their recommendation, would suggest that the Ministry should take this opportunity to evaluate the efficacy of RIDF. They also recommend to restore the capital gain bonds and tax free bonds to enable NABARD to access cheaper sources of funds and strengthen the rural infrastructure.

New Delhi;
4 December, 2012
13 Agrahayana, 1934 (Saka)

YASHWANT SINHA
Chairman,
Standing Committee on Finance

MINUTES OF THE FIFTH SITTING OF THE STANDING COMMITTEE ON FINANCE (2012-13)

The Committee sat on Thursday, the 29th November, 2012 from 1530 hrs to 1730 hrs.

PRESENT

Shri Yashwant Sinha – Chairman

MEMBERS

LOK SABHA

2. Dr. Baliram
3. Shri Rahul Gandhi
4. Shri Deepender Singh Hooda
5. Shri Bhartruhari Mahtab
6. Shri Sanjay Brijkishorlal Nirupam
7. Shri Prem Das Rai
8. Shri S.S. Ramasubbu
9. Shri Thakur Anurag Singh
10. Dr. M. Thambidurai
11. Shri Shivkumar Udasi

RAJYA SABHA

12. Shri Piyush Goyal
13. Dr. Mahendra Prasad
14. Shri Praveen Rashtrapal

SECRETARIAT

1. Shri A. K. Singh – Joint Secretary
2. Shri Ramkumar Suryanarayanan – Additional Director
3. Shri Sanjay Sethi – Under 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 Fifty First Report (15th Lok Sabha) on Demands for Grants (2012-13) of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment);

(ii) Draft Report on action taken by the Government on the recommendations contained in the Fifty Second Report (15th Lok Sabha) on Demands for Grants (2012-13) of the Ministry of Finance (Department of Revenue);

(iii) Draft Report on action taken by the Government on the recommendations contained in the Fifty Third Report (15th Lok Sabha) on Demands for Grants (2012-13) of the Ministry of Planning;

(iv) Draft Report on action taken by the Government on the recommendations contained in the Fifty Fourth Report (15th Lok Sabha) on Demands for Grants (2012-13) of the Ministry of Statistics and Programme Implementation; and

(v) Draft Report on action taken by the Government on the recommendations contained in the Fifty Fifth Report (15th Lok Sabha) on Demands for Grants (2012-13) of the Ministry of Corporate Affairs.

3. The Committee adopted the draft reports at Sl.no. (iv) without any modification and those at Sl.nos. (i), (ii), (iii) and (v) with modifications. The Committee also authorized the Chairman to present all the Reports to Parliament in the current session.

The Committee adjourned at 1730 hours.

APPENDIX

(*Vide* Para 4 of the Introduction)

ANALYSIS OF THE ACTION TAKEN BY GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE FIFTY FIRST REPORT OF THE STANDING COMMITTEE ON FINANCE (FIFTEENTH LOK SABHA) ON DEMANDS FOR GRANTS (2012-2013) OF THE MINISTRY OF FINANCE (DEPARTMENTS OF ECONOMIC AFFAIRS, EXPENDITURE, FINANCIAL SERVICES & DISINVESTMENT)

		Total	% of Total
(i)	Total number of Recommendations	15	
(ii)	Recommendations/observations which have been accepted by the Government (*Vide* Recommendations at Sl. Nos. 1, 2, 3, 5, 6,7, 8, 9,10, 12,13, 14 & 15)	13	86.66
(iii)	Recommendations/observations 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* Recommendations at Sl. Nos. 4 &11)	02	13.34
(v)	Recommendation/observation in respect of which final reply of the Government is still awaited	NIL	0.00