8

STANDING COMMITTEE ON FINANCE
(2014-15)

SIXTEENTH LOK SABHA

MINISTRY OF FINANCE
(DEPARTMENT OF ECONOMIC AFFAIRS)

***[Action taken by the Government on the recommendations contained in Fifty-Ninth Report of the Committee on Finance on* ‘Current Economic Situation and Policy Options’]**

EIGHTH REPORT

LOK SABHA SECRETARIAT
NEW DELHI

December, 2014, Agrahayana, 1936 (Saka)

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STANDING COMMITTEE ON FINANCE
(2014-2015)

(SIXTEENTH LOK SABHA)

MINISTRY OF FINANCE
(DEPARTMENT OF ECONOMIC AFFAIRS)

[Action taken by the Government on the recommendations contained in Fifty-Ninth Report of the Committee on Finance on **'Current Economic Situation and Policy Options']**

Presented to Lok Sabha on 22 December, 2014

Laid in Rajya Sabha on 22 December, 2014

LOK SABHA SECRETARIAT
NEW DELHI

December, 2014, Agrahayana, 1936 (Saka)

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** Not appended in the cyclostyled copy*

COMPOSITION OF COMMITTEE ON FINANCE – 2014-15

Dr. M. Veerappa Moily - Chairperson

MEMBERS

LOK SABHA

2. Shri S.S. Ahluwalia
3. Shri Venkatesh Babu T.G.
4. Shri Sudip Bandyopadhyay
5. Shri Nishikant Dubey
6. Shri P.C. Gaddigoudar
7. Dr. Gopalakrishnan C.
8. Shri Shyama Charan Gupta
9. Shri Prataprao Jadhav
10. Shri Rattan Lal Kataria
11. Shri Bhartruhari Mahtab
12. Shri Prem Das Rai
13. Shri Rayapati Sambasiva Rao
14. Prof. Saugata Roy
15. Shri Jyotiraditya M. Scindia
16. Shri Gajendra Singh Sekhawat
17. Shri Gopal Shetty
18. Shri Anil Shirole
19. Vacant*
20. Dr. Kiritbhai Solanki
21. Dr. Kirit Somaiya

RAJYA SABHA

22. Shri Naresh Agrawal
23. Shri Naresh Gujral
24. Shri A. Navaneethakrishnan
25. Vacant**
26. Dr. Mahendra Prasad
27. Shri P. Rajeeve
28. Shri C.M. Ramesh
29. Shri Ajay Sancheti
30. Shri Digvijaya Singh
31. Dr. Manmohan Singh

SECRETARIAT

1.	Shri R.K. Jain	-	Joint Secretary
2.	Shri P.C. Koul	-	Director
3.	Shri Tenzin Gyaltsen	-	Committee Officer

* Shri Jayant Sinha, MP ceased to be Member of the Committee w.e.f. 09.11.2014 consequent upon his induction to the Union Council of Ministers

** Shri Brajesh Pathak, MP ceased to be the Member of the Committee w.e.f. 25.11.2014 consequent upon his retirement from Rajya Sabha

INTRODUCTION

I, the Chairperson of the Committee on Finance, having been authorized by the Committee, present this Eighth Report on action taken by Government on the Observations / Recommendations contained in the Fifty-ninth Report of the Committee (Fifteenth Lok Sabha) on "Current Economic Situation and Policy Options" of the Ministry of Finance (Department of Economic Affairs).

2. The Fifty-ninth Report was presented to Lok Sabha / laid on the table of Rajya Sabha on 30 August, 2012. The Action Taken Notes on the Recommendations were received from the Government *vide* their communication dated 29 November and 30 November, 2012.

3. The Committee considered and adopted this Report at their sitting held on 18 December, 2014.

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

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

NEW DELHI	**DR. M. VEERAPPA MOILY,**
<u>18 December, 2014</u>	**Chairperson,**
27 Agrahayana, 1936 (Saka)	**Committee on Finance.**

CHAPTER I

REPORT

This Report of the Standing Committee on Finance deals with action taken by Government on the Observations/Recommendations contained in their Fifty-ninth Report on 'Current Economic Situation and Policy Options', which was presented to Lok Sabha on 30 August, 2012 and simultaneously laid on the Table of Rajya Sabha.

2. The Report contained 20 Recommendations. Action taken notes were received from the Government in respect of all 20 Recommendations contained in the Report in two batches. The Ministry of Finance (Department of Economic Affairs) furnished their responses on 29 November, 2012, while the Department of Revenue furnished theirs on 30 November, 2012. These have been categorised as follows:

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

Recommendation Nos. 2, 3, 4, 5, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19 and 20

(Total: 18)

(Chapter II)

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

Nil

(Total : Nil)

(Chapter III)

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

Nil

(Total: 1)

(Chapter IV)

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

Recommendation No. 1

(Total : 1)

(Chapter V)

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

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

Recommendation (Paragraph No. 3)

Current state of the Indian Economy

5. The Committee had expressed serious concern over the current gloom and doom scenario in the domestic economy and found almost all macroeconomic indicators disturbing during the Financial Year 2011-12. After achieving a GDP growth of 8.4 per cent and manageable current and fiscal deficits in 2010-11, the Fiscal 2011-12 had seen a period of economic downturn with overall GDP growth declining to 6.5 per cent. In the fourth quarter of 2011-12, the growth slipped to 5.3 per cent, the lowest ever in the last 9 years. Inflation remained stubborn at uncomfortably high levels despite monetary tightening and a grim situation of high inflation and low growth ensued. Compression in aggregate demand, weakened industrial growth, poor agricultural output resulting mainly from erratic monsoon, moderation in services sector, twin deficits on the current account and fiscal sides, steep downslide in the value of rupee, etc. have been symptomatic of the economic turbulence in the macroeconomic environment of the country. In addition to the domestic problems, the Government have also cited global factors as the major reason for the slump. However, the Committee were of the view that the need of the hour was to put the economy back on growth track through a well thought out revival policy which may include less layered yet more effective decision making, time-bound clearance of projects, more transparent tax regime and enhanced domestic investment. The Committee had, therefore, urged upon the Government to take clear-cut measures in this direction and implement them speedily and without fail.

6. In their Action Taken Note, the Ministry of Finance (Department of Economic Affairs) have stated that several steps are being undertaken to raise growth and improve the investment climate in the economy. These include steps aimed to facilitate access to finance while strengthening the manufacturing

sector, ‘fast-tracking’ of large investment projects particularly through the creation of the National Investment Board, finding solutions to binding constraints in specific areas such as power, petroleum and gas, roads, coal, land acquisition, environmental clearances, and bank financing. Several specific reforms have been undertaken to address the recent slowdown in growth and boost investor sentiments. Some of the measures include permitting FDI in multi-brand retail trading subject to specific conditions, permitting foreign airlines to invest up to 49 per cent in scheduled and non-scheduled air transport services, disinvestment of 12.15 per cent, 10 per cent, 9.59 per cent and 9.33 per cent paid up equity in the National Aluminium Company Limited, Oil India Ltd., Hindustan Copper Limited and MMTC Ltd. Respectively. Recent fiscal measures, including hike in the price of diesel by Rs. 5 per litre, imposing a cap on the number of subsidized cylinders of LPG are expected to reduce the subsidy burden and complement efforts at fiscal consolidation that is important to revive growth. The Report of the Kelkar Committee outlines the fiscal roadmap for the medium term and suggested various measures for attaining the same, which is being examined. Concerns of investors about policy, tax administration, and administrative discretion are also being addressed and in this regard the Expert committee headed by Dr. Parthasarathi Shome has laid out the broad principles and guidelines that should govern the anti-avoidance rules.

7. The Department of Revenue in their Action Taken Note stated that a more transparent tax regime i.e. No tax can be collected without due authority of law. The Government consistently follows the policy of certainty, predictability and stability in tax laws. The law is applicable for all persons without any discretionary powers with the administration to increase or decrease tax liability of any person in contravention of legal provisions. The tax audits are largely done through selection by way of Computer-Assisted Scrutiny System (CASS) and manual selection is restricted to those approvals given at senior most level in the field i.e., by Chief Commissioner of Income-tax. There is greater use of technology so as to reduce interface of public with department personnel. Taxpayers have access to the tax administration as well as forums for dispute

resolution like Authority for Advance Ruling (AAR), Settlement Commission etc. to resolve their issues besides the regular appellate channels available to them.

8. The Committee feel that the Indian economy is at cross roads with high fiscal deficit and Current Account Deficit (CAD) alongwith recurring high inflation notwithstanding several steps taken in specific direction. The Committee also observe a general decline of economic growth scenario and low GDP.

9. The Committee while acknowledging the correlation between subsidy, fiscal deficit and inflation would urge the Government to schematize diesel and kerosene prices in such a way that its cascading effect via various sectors like transport and agriculture on economy is minimized. The Committee are of the opinion that the Government needs to set in motion a decisive policy regime with regard to fiscal deficit and current account deficit. Also, slowdown in growth for the last 2 years (i.e. 2012-13 and 2013-14) which particularly affected the industrial sector alongwith impeding the process of transformation of the Indian Economy into a manufacturing sector based economy alongwith a more robust and well established tertiary sector. Finally, in 2014-15 the Indian economy might be able to overcome the sub 5% growth of Gross Domestic Product (GDP) as indicated by green shoots visible in different sectors of the economy. The Committee, therefore, desire the Government to initiate long term steps involving various sectors and especially infrastructure by fast tracking investment and introducing a well appraised policy at national as well as international level by strengthening the country's trade integration with other emerging and developed economies.

Recommendation (Paragraph No. 5)

Inclusive Development

10. On the issue of inclusive development, the Committee were concerned to note the emerging ever widening gap between the rich and poor and the increasingly disproportionate distribution of assets in our country. They had observed that the purchasing power was getting concentrated in the hands of a few, whereas the majority are struck below the expenditure curve. Rise in prices, growing unemployment and diminishing real wages have made the poor languish, even as the better-off became more affluent, garnering the benefits of the economic growth our country had witnessed over the last few years. Even the indicators of the 68th round of the National Sample Survey which covered the household consumer expenditure during 2011-12 had confirmed this regressive phenomenon. Observing that the poorest 10 per cent in urban areas lived on Rs. 23.40 per day while their rural counterparts make do with even less at Rs 16.78, the Committee had opined that there were no short cuts to meet this challenge and in order to reduce poverty and bring the poor millions to the mainstream of our economy, the Government had to strengthen social infrastructure through focused investments and extend food security and employment guarantee to the poor. The Committee had urged the Government to focus their energies and prioritise their expenditure on goals of inclusive development, namely in the areas of healthcare, education and shelter.

11. The Ministry of Finance (Department of Economic Affairs) in their Action Taken Note have, *inter-alia* stated that "inclusive development is high on government agenda which is evident from the fact that the expenditure on social services by the government (centre and states combined) has shown an increase in recent years. Expenditure on social services as a proportion of total expenditure increased from 21.6 per cent in 2006-7 to 24.1 per cent in 2009-10 and further to 25 per cent in 2011-12 (BE). As a proportion of the gross domestic product (GDP), its share increased from 5.57 per cent in 2006-7 to 6.76 per cent, 6.91 per cent, and 7.34 per cent in 2008-09, 2009-10, and 2010-11 respectively, helping India face the global crisis without much adverse impact on the social sector. While expenditure on education as a proportion of GDP has increased

from 2.72 per cent in 2006-7 to 3.11 per cent in 2011-12 (BE), that on health has increased from 1.25 per cent in 2006-07 to 1.30 per cent in 2011-12 (BE). Similarly, the allocation for the major housing scheme i.e. Indira Awas Yojana (IAY) has increased from Rs. 2920 crore in 2006-07 (BE) to Rs.10,000 crore in 2011-12 (BE) giving a step up of 242.5% in 2011-12 over 2006-07. Government proposes to enact a new law – the National Food Security Act – that will provide a statutory basis for a framework which assures food security for all. The draft Bill was considered and approved by the Cabinet. The National Food Security Bill, 2011 has been introduced in Lok Sabha on 22nd December, 2011. It proposes that every person shall be entitled to receive every month from the State Government under Targeted Public Distribution System, 7 kg. of foodgrains per person per month for priority households and not less than 3 kg. of foodgrains per person per month for general households identified as per act at subsidized prices. Further, identified persons, households, groups or communities living in starvation or conditions akin to starvation shall be provided meals, two times a day, free of charge in accordance with a scheme for six months from the date of identification of starvation case. Food Security Allowance shall be given in case of non-supply of the entitled quantities of foodgrains or meals to the entitled person. Besides, the Food Corporation of India has to maintain a part of stocks of procured foodgrains in the form of buffer as a measure of food security to guard against situations of scarcity of foodgrains and also enable the Government to intervene effectively to stabilize prices in times of undue increase in the market. With regard to employment guarantee, the Mahatma Gandhi NREGA, a rights based legislation is under implementation with the objective of providing enhanced livelihood security to the households in rural areas by providing at least 100 days of guaranteed wage employment in a financial year to any household whose adult members are willing to do unskilled manual work. As per latest available information (as available on MGNREGA- MIS as on 29.10.2012), a total of 375.42 lakh households have been provided employment of 117.91 crore persondays with SCs, STs and Women share of 23 per cent, 15 per cent and 54 per cent respectively during 2012-13. The average person days of employment per households comes to 31. The persondays generation for women is well above the stipulation of 1/3 as per the Act. The total available funds with the States/UTs including opening balance was Rs 36737.10 crore against which an amount of Rs 18293.60 crore has been utilized till the reporting date which is 49.8 per cent of available funds during the current year 2012-13.

12. The Committee note the various steps enumerated by the Government in their Action Taken Note but the sad fact remains that there has been no substantial increase in the income of the majority of people who are at the bottom rung. Disproportionate distribution of scheme benefits and economic measures has rendered the vulnerable sections of society unable to emerge out of their deprivation while mostly the affluent sections seems to be reaping the benefit of economic measures. Rise in prices, grossly insufficient employment generation and low real wages has further accentuated the crisis. Substantial population still lingers below poverty line with ever widening gap in terms of rise in income of poor and rich. The Committee observe that inclusive development should include social advancement along with financial inclusion as people who are socially excluded are financially excluded as well and therefore fail to reap the benefit of Government action/Schemes. The Committee, therefore, would like the Government to further revisit major dimensions of inclusive development like health care, education, shelter, food and employment security, woman empowerment and social welfare. Before concluding on this issue the Committee would like the Government to leave no stone unturned in making the Food Security Act and MNREGA a thumping success as they have the potential and capacity of turning inclusive growth into a reality.

Recommendation (Paragraph No. 6)

Savings and Investment

13. Having understood that savings and investment are the two critical macroeconomic variables with microeconomic foundations for achieving sustainable economic growth, the Committee were deeply concerned about the marked decline in domestic savings, domestic investments and demand in our economy. As per the Report of the Prime Minister's Economic Advisory Council (PMEAC), the Gross Domestic Fixed Capital Formation(GDFCF) as a proportion of GDP had continued to decline from its highest level of 32.9 per cent in 2007-08 to 30.4 per cent in 2010-11 and is estimated to fall 29.5 per cent in 2011-12. They had further observed that the gross domestic savings as percentage to GDP had also moderated from a peak of 36.8 per cent in 2007-08 to 32.3 per cent in 2010-11 and is estimated to come down to 31.5 per cent in 2011-12. This was mainly on account of a sharp decline in public savings from 5 per cent of GDP in 2007-08 to 1.7 per cent in 2010-11. Corporate savings also declined from 9.4 per cent of GDP in 2007-08 to 7.9 per cent in 2010-11. The household savings, which had increased to the highest rate ever achieved, i.e 25.4 per cent in 2009-10, moderated to 22.8 per cent in 2010-11. According to PMEAC, the net financial savings of households have fallen to their lowest levels in 15 years from 11.6 per cent of GDP in 2007-08 to 10 per cent in 2010-11 and possibly below 9 per cent in 2011-12. RBI's latest Financial Stability Report stated that the deposit growth rate at 14 per cent as on March 31, 2012 was the lowest recorded in last 10 years. The Committee had also noted that the savings-investment gap during 2011-12 remained at 2.8 per cent of GDP, the same level as in 2009-10. Since 2008-09, this gap had been at relatively elevated levels, i.e in excess of 2 per cent of GDP as compared to 0.4 to 1.3 per cent in 2004-05 to 2007-08. While inflation was one of the factors for moderation in household savings, the decline in investment had been attributed by the Government to a sharp increase in the policy rates that resulted in higher costs of borrowings. On demand side also there had been a deceleration. Private consumption, a key driver of growth too had nosedived. As the Committee strongly felt that our growth story was based

on domestic savings, investment and domestic demand rather than on external demands and supports, they had viewed the revival of domestic demand, domestic savings and investments as the biggest challenges before the Government and recommended that to achieve and sustain growth at high levels, the Government and RBI should make concerted efforts to increase domestic savings and investments through calibrated adjustments in policies.

14. In their Action Taken Note the Ministry of Finance (Department of Economic Affairs) have stated that a high rate of investment is a prerequisite for sustained growth in GDP. The rate of investment has registered an increase between 2004-05 and 2007-08. The rate of investment was over 38 per cent in 2007-08. This was also the period of growth of over 9 per cent. As per the latest available data, the investment rate stood at around 35 per cent in 2011-12. To boost growth, there is a need to boost savings and devise ways to channelize savings into investments so that strong investment rates of 37-38 per cent can be achieved. Given India's incremental capital output ratio, at such rates India's GDP growth may recover to a rate of 8 per cent or more. While the policy measures being currently undertaken are expected to revive growth and domestic demand in the economy, the Securities and Exchange Board of India (SEBI) has recently undertaken several measures to boost the mutual fund industry. Such measures are aimed at increasing mutual fund penetration in the country that would aid the cause of financial inclusion. This is expected to result in higher mobilization of household savings for the growth of the economy. Fiscal consolidation by reducing the fiscal deficit is a top priority. Adherence to the process of fiscal consolidation as indicated by the Medium Term Fiscal Policy Statement could help raise public sector savings. For this, the focus has to be on higher revenue realization and moderating spending as well as through a fair adjustment of administered prices and reducing the exponential rise in subsidies on fuel, while ensuring that vulnerable sections are protected. The rise in the savings rate in the period 2003-04 to 2007-08 owed to fiscal consolidation and the adherence to the same in the medium term is expected to release resources necessary for investment in crucial sectors of the economy.

15. The Committee find that reply of the Government lacking specifics. Bringing back the investment rates to the high of 2007-08 and above obviously requires higher savings which in turn require positive policy interventions for making them attractive. A trend towards higher savings in turn would also have some positive impact on the ballooning fiscal deficit. This issue is, therefore, to be attended to not only in Medium Term Fiscal Policy terms but short term and long term as well. The Committee, therefore, reiterate their Recommendation that the Government and Reserve Bank of India should make concerted efforts to increase domestic savings and investments through caliberated adjustment in policies.

Recommendation (Paragraph No. 17)

Financing the Current Account Deficit

16. The Committee had observed that an unsustainable Current Account Deficit (CAD) had become a serious threat to the macroeconomic stability. In 2011-12, the country had reported an all time high CAD both in absolute terms as well as proportion to GDP at US$ 78.2 billion (4.2 per cent of GDP) *vis-à-vis* US$ 45.9 billion forming 2.7 percent of GDP in 2010-11. In January- March 2012 it was even higher at 4.5 per cent of GDP in stark contrast to just 1.3 per cent in the corresponding quarter of the previous year. As the sustainable level of CAD in our country is historically believed to be below 2 per cent of GDP, a CAD exceeding 4.0 per cent of GDP had caused a net drawdown on reserves of US$ 12.8 billion in 2011-12. This rise in CAD, the Committee understand, was because of widening trade deficit on account of subdued external demand and relatively inelastic imports of Petroleum, Oil and Lubricants (POL) as well as gold and silver. The slower GDP growth in 2011-12 coupled with depreciation of rupee added to the CAD-GDP divide. In this context, the Committee strongly felt that concerted efforts should be made by the Government to bring down the import of POL, discourage unproductive imports like gold and silver and boost competitive domestic production. In order to bring down the drain on domestic economy on account of import of petroleum products, the Committee desired that the use of

alternate fuels may be considered and the Ethanol blending programme for petrol which has remained in limbo for too long may be implemented forthwith. Ways and means to reduce the use of hydrocarbons may also be given thrust.

17. In their Action Taken Note, the Ministry of Finance (Department of Economic Affairs) have stated that to lower the impact of gold imports on CAD under balance of payment (BoP), Government in the Union Budget 2012-13 has increased basic custom duty on standard gold bars; gold coins of purity exceeding 99.5 per cent and platinum from 2 per cent to 4 per cent and on non-standard gold from 5 per cent to 10 per cent. Further, the Reserve Bank of India had also taken certain prudential measures in respect of Non-Banking Financing Companies (NBFCs) predominantly engaged in lending against collateral of gold jewellery, to restrict the loans against gold. As part of the strategy to reduce oil imports and to reduce the burden on the Government exchequer, the Government had allowed oil market companies to fix the prices of petrol as per market condition and more recently has hiked the diesel prices in September, 2012 in order to allow greater pass-through of international oil prices to consumers. The observation of the Committee on ethanol blending programme is being forward to Ministry of Petroleum and Natural Gas to take note of it and necessary follow up action in the matter.

18. The Current Account Deficit is a serious malaise gnawing at the vitals of the Indian economy and needs to be treated on an overriding priority. The Committee, therefore, are of the view that Government needs to initiate measures with regard to supply side policies to improve the competitiveness of the economy. As another emergent measure the depreciation of rupee needs to be contained to bridge the Current Account Deficit (CAD)- Gross Domestic Product (GDP) divide. Simultaneously, the competitive domestic production needs to be reinforced alongwith opportune policies to keep growth of exports certainly would go a long way towards maintaining sustainable Current Account Deficit at an acceptable range of GDP.

Presently, the Committee are pleased to note that the unrelenting situation of CAD of the past few years has eased a bit alongside fiscal deficit. The petroleum prices have also shown a southward trend. The situtation is, therefore, ripe for bold policy initiatives to maintain the trend and the Committee expect that the Government will not let this opportunity abegging.

Recommendation (Paragraph No. 19)

Subsidy

19. The Committee found from the submissions of the Reserve Bank of India that the fiscal deficit target for 2012-13 may be breached due to likely overshooting of subsidies and shortfall in receipts. The Central bank had also called for adjustment of subsidies in the interest of fiscal consolidation and to encourage efficient use of scarce resources. At the same time, the Governor, RBI had submitted that the estimates based on certain assumptions showed that the proposed elimination of fuel subsidy can trigger an inflation spike of about 2.6 per cent. The Government had, however, informed the Committee that the measures taken by them like introduction of Nutrient Based Subsidy (NBS) mechanism for certain fertilizers and deregulation of petrol pricing, etc. have helped to an extent in reducing the expenditure on major subsidies. In view of the above and the socio-economic commitments towards common people, the Committee had strongly desired that better targeting of subsidies is what is required as a significant share of the subsidized products are being enjoyed by affluent sections of the society.

20. The Government, in their Action Taken Note have stated as follows :-

(i) While there are concerns relating to overshooting of subsidies and shortfall in receipts, the overall position relating to the revenues and expenditure during the current financial year and thereby the Fiscal Deficit for the year will be clear only after completion of the mid-year review exercise. The outcome of the mid-year review will get reflected in the form of Revised Estimates for the year, and will be presented along with the Budget for the next financial year.

(ii) The Government aims to limit the overall spending on major subsidies, primarily based on effective targeting and eliminating leakages. Towards that end, the recommendations of the Task Force on Direct Transfer of Subsidy (chaired by Shri Nandan Nilekani) as under are at various stages of consideration of the Government.

In the case of LPG, in the first instance a cap on the entitlement has been implemented, to be followed by direct transfer of subsidy to customers based on Aadhar authentication. For both, LPG and Kerosene, the final stage would involve targeting of beneficiaries and subsidy transfer directly to the segmented users. Further, all the three Oil Marketing Companies have launched LPG transparency portals to improve customer service and prevent leakages. A pilot project for selling LPG at market price and reimbursement of subsidy directly in to the beneficiary's bank account has been conducted in Mysore. A similar project on direct transfer of kerosene subsidy in to the bank accounts of the beneficiaries has been initiated in Alwar District in Rajasthan. These pilot projects show that substantial economies in subsidy outgo can be achieved by direct transfer. In the case of food subsidy, information regarding Supply Chain Management System from the procurement agency to the beneficiaries is proposed to be placed in the public domain.

The strategy is expected to reduce subsidy outgo by:

(i) Weeding out ghost beneficiaries/duplicates/ double counting by Aadhar authentication at the point of sale;

(ii) Bringing necessary information in public domain; and

(iii) Proper targeting of segmented beneficiaries.

The Government has initiated several measures for containing the fiscal deficit during the current financial year and for better targeting/reduction of subsidies. The benefits of measures taken towards subsidy rationalization/ targeting are however expected to flow over a period of time".

21. Subsidies play a vital role in the economy of a country as it is provided to ensure equitable distribution of essential resources to the people particularly the vulnerable section. Subsidies should be effectively used for the welfare of deserving sections of society as over subsidization often leads to deleterious effect on the economy. The Committee are of the view that subsidies in India never reach their intended target i.e. the poor and deserving, which contrarily is

mostly enjoyed by the rich and affluent. People in real need of subsidy for their sheer survival are being forced out of the system. The Committee would, therefore, like the Government to introspect upon the fact that whether it is being ensured by them that the right good/service is being subsidized or there is an urgent need to re-target the subsidies. Since, ill targeted subsidies constrain the fiscal space for public investment and distort allocation of resources. The Committee, therefore, reiterate that efficient subsidies must be transparent, targeted and in many cases temporary. Government should not be averse towards new mechanisms to facilitate subsidies to reach people as focus should not be towards removing subsidies but about how to make them effectively reach the targeted populace and ensure that people are benefitted from it.

NEW DELHI
18 December, 2014
27 Agrahayana, 1936 (Saka)

DR. M. VEERAPPA MOILY,
Chairperson,
Committee on Finance.

Minutes of the Fourteenth Sitting of the Committee on Finance

The Committee sat on Thursday, the 18th December, 2014 from 1500 hrs. to 1715 hrs. in Committee Room 'B', Ground Floor, Parliament House Annexe, New Delhi.

PRESENT

Dr. M. Veerappa Moily – Chairperson

MEMBERS

LOK SABHA

2. Shri Venkatesh Babu T.G.
3. Shri Nishikant Dubey
4. Dr. Gopalakrishnan C.
5. Shri Shyama Charan Gupta
6. Shri Rattan Lal Kataria
7. Shri Bhartruhari Mahtab
8. Shri Gajendra Singh Sekhawat
9. Shri Gopal Shetty
10. Shri Anil Shirole
11. Dr. Kirit Somaiya

RAJYA SABHA

12. Shri Naresh Gujral
13. Dr. Mahendra Prasad
14. Shri C.M. Ramesh
15. Shri Ajay Sancheti
16. Dr. Manmohan Singh

SECRETARIAT

1. Shri R.K. Jain	-	Joint Secretary
2. Shri P.C. Koul	-	Director
3. Shri R.K. Suryanarayanan	-	Additional Director
4. Shri Kulmohan Singh Arora	-	Deputy Secretary

WITNESSES

2. x x x x x

3. x x x x x

4. x x x x x

5. x x x x x

(The witnesses then withdrew)

6. Thereafter the Committee took up following draft Reports for consideration: -

(i) Draft Report on Demands for Grants (2014-15) of the Ministry of Planning:

(ii) Memorandum No. 4 regarding draft Report on action taken by the Government on the Observations / Recommendations contained in the Fifty-ninth Report (Fifteenth Lok Sabha) on the subject 'Current Economic Situation and Policy Options'; and

(iii) Memorandum No. 5 regarding draft Report on action taken by the Government on the Observations/Recommendations contained in the Seventy-fourth Report (Fifteenth Lok Sabha) on the Subject 'Economic Impact of Revision of Natural Gas Price'.

7. After some deliberations, the Committee adopted the above draft Reports with minor modifications in the Reports mentioned at Sl. Nos. (i) to (iii) above and authorised the Chairperson to finalise them in the light of factual verification from concerned Ministries/Departments.

The Committee then adjourned.

A verbatim Record of the proceedings has been kept.

APPENDIX

(Vide Para 4 of the Introduction)

ANALYSIS OF ACTION TAKEN BY THE GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE FIFTY-NINTH REPORT OF THE COMMITTEE ON FINANCE (FIFTEENTH LOK SABHA) ON 'CURRENT ECONOMIC SITUATION AND POLICY OPTIONS' OF THE MINISTRY OF FINANCE (DEPARTMENT OF ECONOMIC AFFAIRS)

		Total	% of total
(i)	Total number of Recommendations	20	
(ii)	Recommendations/Observations which have been accepted by the Government (Vide Recommendation at Sl. Nos. 2, 3, 4, 5, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19 and 20)	18	90%
(iii)	Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies	Nil	0%
(iv)	Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee (Vide Recommendation at Sl. No. 6)	01	5%
(v)	Recommendations/Observations in respect of which final reply of the Government are still awaited by the Committee (Vide Recommendation at Sl. No. 1)	01	5%