सत्यमेव जयते

GOVERNMENT OF INDIA

SUMMARY REPORT
CALENDAR YEAR 2008

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
NEW DELHI

INTRODUCTION

Interim Budget 2009-10 is scheduled to be presented to Parliament on 16th February, 2009 to enable the Central Government to seek a Vote-on-Account for the first four months of 2009-10. As per precedent, Detailed Demands for Grants, Outcome Budgets and Annual Reports will be presented by different Ministries/Departments alongwith Regular Budget. For facilitating discussion on Vote-on-Account in Parliament, a summary detailing the activities of this Ministry including achievements and targets during the calendar year 2008 has been prepared.

The Ministry of Finance is responsible for administration of the finances of the Central Government. It is concerned with all economic and financial matters effecting the country as a whole, including mobility of resources for development. It regulates the expenditure of the Central Government, including the transfer of resources to States.

The Ministry comprises five Departments, namely:

i. Department of Economic Affairs;

ii. Department of Expenditure;

iii. Department of Revenue;

iv. Department of Disinvestment; and

v. Department of Financial Services.

This report gives a synoptic view of the important activities of the Ministry during the calendar year 2008.

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Chapter I
Department of Economic Affairs

1. Economic Division

1.1. India's GDP (at constant 1999-2000 prices) has grown at an average annual rate of 8.9 per cent in the last five years (2003-04 to 2007-08), placing the economy decidedly on a higher growth path. In the year 2008, the macroeconomic management of the economy has been particularly challenged by unanticipated external shocks- the significant hike in fuel and commodities prices at the beginning of the year, followed by an unprecedented global financial sector meltdown in the second half that has resulted in the US, Europe and Japan slipping into recession. A crisis of this magnitude in industrialized countries is bound to have an impact around the world. Most emerging market economies have slowed down significantly and India has also been affected. Though GDP growth in real terms in the first half of the fiscal year has been 7.8 per cent, which is fairly robust, it is expected to slow down further to around 7 per cent in the second half of the year. However, this will still make India the second fastest growing economy in the world.

1.2 The high and rising prices have been a cause of major concern for the Government. Inflation as measured in terms of the Wholesale Price Index (WPI), had got into double digits in the second week of June 2008, rising further to an alarming 12.9 per cent in the first week of August, 2008 and then continued to be in double digits for 21 weeks until the beginning of November, 2008. To ease supply side constraints, the Government took a series of fiscal and administrative measures, in concert with monetary initiatives by the Reserve Bank of India. These have led to decline in domestic prices with WPI falling to 5.1 per cent in the week ending January 19, 2009. Further, to counter the negative fallout of global slowdown on the Indian economy, the Government took steps that included fiscal stimulus packages announced on December 7, 2008 and January 2, 2009, which provide tax relief to boost demand and aim at increasing expenditure on public projects to create employment and public assets. These developments, while creating a challenge for the policy makers by highlighting the possible tradeoff between growth and inflation control, reveal the growing complexities of macroeconomic management for a rapidly growing economy in a globalized world.

1.3 India has evolved a liberal and transparent policy on foreign direct investment (FDI). Except for a small negative list, FDI is allowed mostly on the automatic route. A liberal investment regime is complemented by a tax regime that is moderate and stable. Notwithstanding the uncertainties in the global financial markets, FDI equity inflows during April-November 2008 were US $ 20 billion, representing a growth of 174 per cent over the same period in 2007. The sectors attracting the highest FDI equity inflows have been the services sector, telecommunications, construction activities including roads and highways, housing and real estate, and computer hardware and software.

1.4 With a view to improve the flagship publications of the Ministry of Finance, namely, the Economic Survey and the Mid Year Review of the Economy; the Economic Division implemented a work programme to consult stakeholders of these reports, both within and outside the government. The significant analytical and presentational revisions undertaken were reflected in the two documents presented to the Parliament in the year 2008. In addition, the Economic Division undertook frequent consultations with economists, business associations and policy analysts and produced several Policy as well as Working Papers on issues of direct relevance to the Department of Economic Affairs.

2. Budget Division

2.1.1. Budget Division is responsible for the preparation of and submission to Parliament the Annual Budget (Excluding Railways) as well as Supplementary and Excess Demands for Grants of the Central Government and of States under President's Rule. The Division is also responsible for dealing with issues relating to Public Debt, market loans of the Central Government and State Government's borrowing and lending, guarantees given by the Government of India and the Contingency Funds of India. The responsibility of the Division also extends to regulate the flow of expenditure by processing proposals from other Ministries/ Departments for re-appropriation of savings in a Grant where prior approval of the Ministry of Finance is required. The Division also deals with National Savings Institute (NSI), Small Savings Schemes and National Defence Fund. The work relating to Treasurer Charitable Endowment is also handled in the Budget Division.

2.1.2 Budget Division is responsible for matters relating to Duties, Powers and Conditions of Service of the Comptroller and Auditor General of India and submission of the reports of the Comptroller and Auditor General of India relating to the accounts of the Union to the President for being laid before Parliament. During the calendar year 2008, 17 reports of the C&AG of India were laid before the Parliament and 32 entrustment/re-entrustments of audit of various bodies to the C&AG of India were handled by this Division.

2.1.3 Budget Division is also responsible for administration of 'Fiscal Responsibility and Budget Management Act, 2003' which was brought into force with effect from 5th July, 2004. The Rules made under the Act were also made effective from that date. Quarterly Review including Mid-term Review were presented in Parliament in accordance with the requirements of the FRBM Act.

2.1.4 Budget Division also oversees/facilitates the implementation of 'Gender Budgeting' in various Ministries/ Departments.

2.2 **Fiscal Responsibility and Budget Management (FRBM) Act, 2003**

2.2.1 Administration of Fiscal Responsibility and Budget Management (FRBM) Act, 2003 and the Rules framed there under came into effect in 2004. The Act seeks to provide for the responsibility of the Central Government to prepare FRBM documents and present them in the Parliament. Accordingly, during the calendar year 2008, the following documents were presented in the Parliament.

(i) Macro-Economic Framework Statement 2008-09

(ii) Medium Term Fiscal Policy Statement 2008-09

(iii) Fiscal Policy Strategy Statement 2008-09

(iv) Quarterly reports of the trends in receipts and expenditure

(a) Third Quarter report for the year 2007-08

(b) Fourth Quarter report for the year 2007-08

(c) First Quarter report for the year 2008-09

(d) Mid-Year Review for the year 2008-09

2.2.2 The Thirteenth Finance Commission was constituted in November, 2007. Further an additional term of reference has been given to the Thirteenth Finance Commission during August 2008 for reviewing the roadmap for fiscal adjustment and suggesting a revised roadmap with a view to maintaining the gains of fiscal consolidation through 2010 to 2015, after factoring in the need to bring the liabilities on account of oil, food and fertilizer bonds into the fiscal accounting and also the impact of various other obligations of the Central Government on the deficit targets.

2.3 **National Small Savings**

2.3.1 **Small Savings Scheme**

2.3.1.1 The Small Savings Schemes currently in force are: Post Office Savings Account, Post Office Time Deposits (1, 2, 3 & 5 years), Post Office Recurring Deposits, Post Office Monthly Income Account, Senior Citizens Savings Scheme, National Savings Certificate (VIII-Issue), Kisan Vikas Patra and Public Provident Fund.

2.3.1.2 In order to make the small savings schemes more attractive and investor friendly, the Government has made the following amendments in these schemes in recent times.

i) Operation of accounts allowed directly or through a literate agent by blind or otherwise physically handicapped adult under Post Office Savings Account Rules and Post Office Time Deposit Account with effect from 26th June, 2008.

ii) Opening of "Zero Deposit/Zero Balance" accounts for the workers employed under NREG Act, under Post Office Savings Account Rules, with effect from 26th August, 2008.

iii) Number of defaults for revival of accounts increased from 4 to 7 for Defence Services Personnel under Post Office Recurring Deposit Scheme, with effect from 26th June, 2008.

2.3.2 **Small Saving Collections**

The gross deposits under various small savings schemes during 2008-09 (upto November, 2008) were Rs.94,635 crore as against the deposit of Rs.88,335 crore during the same period last year. An amount of Rs.10,500 crore (Approx.) is proposed to be transferred as share of net small savings collections to the States and Union Territories (with legislature) during the current fiscal, as against the sum of Rs. 12,194 crore transferred last year.

2.3.2.1 **National Small Savings Fund**

In order to account for all the monetary transactions under small savings schemes of the Central Government under one umbrella, "National Small Savings Fund" (NSSF) was set up in the Public Account of India w.e.f. 1st April, 1999. The net accretions under the small savings schemes are invested in the special securities of various States/Union Territories (with legislature)/Central Government. The minimum obligation of States to borrow from the National Small Savings Fund (NSSF) has been brought down to 80% per cent of net collections w.e.f. 1st April, 2007.

2.3.3 **Measures for Improved Interface with the Public**

2.3.3.1 Central and State Governments take various measures from time to time to promote and popularize small savings schemes through print and electronic media as well as holding seminars and meetings, providing training to various agencies involved in mobilizing deposits under small savings schemes.

2.3.3.2 National Savings Institute, a subordinate organisation under the Department of Economic Affairs (Budget Division) also maintains its website, i.e., **nsiindia.gov.in**, in collaboration with National Informatics Centre to facilitate interface with the public through wider dissemination of information on small savings. The service also offers on-line registration and settlement of investors' grievances.

2.4 **Public Debt & Liabilities and Cash Management**

2.4.1 The Central Government's normal borrowing through issue of dated securities for financing the fiscal deficit has been budgeted at Rs.1,45,146.04 crore (gross) and Rs.1,00,571 crore (net). The gross market borrowings as per BE 2008-09 were completed by November 2008.

2.4.2 However, in view of the additional cash expenditure approved by the Parliament in the First and Second Supplementary Demands for Grants 2008-09 and the fiscal stimulus packages announced by the Government, it became necessary for the Government of India to raise additional resources. Accordingly, issuance calendars of Rs.70,000 crore of additional dated securities have been issued (initially in December 2008 and subsequently revised in January 2009).

2.4.3 The weighted average yield and weighted average maturity of Central Government dated securities issued during 2008-09 (upto January 23, 2009) were 8.03% and 14.59 years respectively as compared to 8.10% and 14.38 years in 2007-08.

2.4.4 The Ways & Means Advance (WMA) ceiling for the Central Government was fixed at Rs. 20,000 crore for the first three quarters of the current fiscal year i.e., April-December 2008. The WMA limit for the fourth quarter is Rs.6,000 crore.

2.4.5 In addition to the normal market borrowing programme, in the current fiscal year, Government has so far issued Special Securities of Rs.65,942 crore in three tranches to Oil Marketing Companies (OMCs) as compensation towards estimated under-recoveries on sensitive petroleum products. Government has also issued Special Securities of Rs.20,000 crore to Fertilizer Companies in three tranches as compensation towards fertilizer subsidy.

2.4.6 The annual ceiling under the Market Stabilisation Scheme (MSS) was fixed at Rs.2,50,000 crore with a threshold level of Rs.2,35,000 crore for 2008-09.

2.4.7 State Governments have borrowed a net amount of Rs.46,327 crore in the current fiscal year upto January 23, 2009.

2.5 **Debt Management Office**

In the Union Budget 2007-08, the Hon'ble Finance Minister had proposed the establishment of an autonomous Debt Management Office (DMO) in the Government. In the first phase, a Middle Office was proposed to be set up to facilitate the transition to a full-fledged Debt Management Office(DMO). Following the announcement, the Middle Office was established in September 2008 in the Ministry of Finance. The major functions of the Middle Office*, inter alia,* include developing debt management strategy, issuance of periodic calendars, forecasting cash and borrowing requirements, developing and maintaining a centralised database on Government liabilities and disseminating debt related information.

3. Capital Markets Division

3.1 **Reforms in the Securities Markets**

3.1.1 The Government have taken a number of reforms in the last four years for deepening, and widening the Securities Markets and strengthening the regulatory mechanisms of securities market in the country.

These initiatives include introducing substantial reforms in the corporate bond market, participation of foreign institutional investors, foreign investment in stock exchanges, setting up a dedicated training and research institute in the securities market (National Institute of Securities Markets), making PAN as the sole identification number, streamlining the process of initial public offering including IPO grading, encouraging the mutual funds including permitting Indian mutual funds to invest in overseas securities, investment of surplus funds by central public sector enterprises, introduction of new derivatives products such as currency futures; setting up an Investors Protection and Education Fund by the Securities and Exchange Board of India etc.

3.1.2 The Government has put in place systems and practices to promote a safe, transparent and efficient market and to protect market integrity. The systems instituted include advanced risk management mechanisms comprising on-line monitoring and surveillance, various limits on positions, margin requirements, circuit filters, etc. Measures taken to broaden and deepen markets include: screen based trading system, dematerialization of securities, corporatization and demutualization of exchanges, settlement through clearing corporation, trading in derivatives.

3.1.3 Further, in order to address the issues emerging from the global financial crisis a number of monetary and fiscal measures have been taken. These include, apart from monetary easing and greater liquidity provisioning by the Reserve Bank of India, enhancing external commercial borrowings, raising FII investment in debt instruments to $ 15 billion, opening liquidity windows to the mutual funds.

3.2 Several initiatives like encouraging a separate exchange/platform for small and medium enterprises, setting up of self-regulatory organisations, comprehensive regulatory framework for Credit Rating Agencies, setting up Debt Management Office etc. are on the anvil. Details of these measures are as follows:

3.2.1 **Corporate Bond Markets**

The Government has accepted the recommendations of the High-Level Expert Committee on Corporate Bonds and Securitisation (Patil Committee) and has taken some measures in the legal, regulatory, tax and market design areas to enhance the development of the corporate bond market.

3.2.2 **Foreign investment in stock exchanges**

Foreign Investment upto 49% has been allowed in infrastructure companies in the securities markets, viz. stock exchanges, depositories and clearing corporations, with separate Foreign Direct Investment (FDI) cap of 26% and Foreign Institutional Investment (FII) cap of 23%.

3.2.3 **National Institute of Securities Markets (NISM)**

In the Budget of 2005-06, Securities and Exchange Board of India (SEBI) was authorized to set up a National Institute of Securities Markets for teaching and training intermediaries in the securities markets and promoting research. NISM has since been set up and is functional.

3.2.4 **PAN as the sole identification number**

PAN has been made the sole identification number for all transactions in securities market.

3.2.5 **IPO grading**

SEBI has made it compulsory for companies coming out with IPOs of equity shares to get their IPOs graded by at least one credit rating agency registered with SEBI from May 1, 2007.

3.2.6 **Permitting Indian mutual funds to invest in overseas securities**

SEBI has fixed the aggregate ceiling for overseas investments at US $ 5 billion. This limit has been recently increased to US $ 7 billion.

3.2.7 **New derivative products**

Mini derivative contract on Index (Sensex and Nifty) having a minimum contract size of Rs. 1 lakh have been introduced. It has been found that globally overall market liquidity and participation generally increases with introduction of mini contracts. Since January 11, 2008 SEBI has also allowed trading on options contracts on indices and stocks with a longer life/tenure of upto five years. These contracts are expected to provide liquidity at the longer end of the market. Since January 15, 2008 SEBI has permitted introduction of volatility index on futures and options contracts. An openly available and quoted measure of market volatitlity in the form of an index will help market participants.

3.2.8 **Short selling**

In pursuance to budget announcement, SEBI has issued a circular on 20th December, 2007 to permit short selling by institutional investors and securities lending and borrowing to support settlement of short sales. This has been implemented in March 2008.

3.2.9 **Investment options for Navaratna and Miniratna Public Sector Enterprises**

The Navaratna and Miniratna Public Sector Enterprises have been allowed to invest in public sector mutual funds .

3.2.10 **Investor Protection and Education Fund (IPEF)**

SEBI has set up the Investor Protection and Education Fund (IPEF) with the purpose of investor education and related activities.

3.2.11 **FIIs' Investments in Government Securities and Corporate Bonds**

FIIs registered with SEBI were permitted to invest in Government Securities and corporate bonds up to USD 5 billion and USD 15 billion, respectively.

3.2.12 **Classifying financial instruments based on complexity levels**

To encourage the development of a market-based system for classifying financial instruments based on their complexity and implicit risks, CRISIL had launched "COMPLEXITY LEVELS" on 28th March, 2008, to help investors determine the degree of sophistication and due diligence required to understand risk factors involved in an instrument, before making an investment decision. More recently CARE, ICRA and FITCH have launched similar initiatives.

3.2.13 **ADR / GDR, FCCBs /ECB**

Framework for launching of domestically convertible bonds, is being put together. Considerable ECB liberalisation has taken place

3.2.14 **Foreign Currency Exchangeable Bonds scheme**

The Foreign Currency Exchangeable Bonds scheme has been notified on 15th February, 2008.

3.2.15 **Currency Futures**

Exchange Traded Currency futures has been launched on the NSE on 29th August, 2008, BSE on 1st October, 2008 and MCX on 7th October, 2008.

4 Infrastructure Division

4.1 Infrastructure Branch

4.1.1 Formation of National Skill Development Corporation(NSDC)

The Union Cabinet, in its meeting held on May 15, 2008, approved formation of National Skill Development Corporation as an integral part of the "Coordinated Action Plan for Skill Development", with an initial corpus /Government equity of Rs.1000 crore. The Corporation is expected to stimulate and coordinate private sector participation in the skill development sectors. NSDC shall be "private sector led"; driven by market needs; and impart world class skills. It will run its programmes separately and independent of sector specific programmes being implemented by various Ministries/Departments of Central Government/State Governments.

4.1.2 In order to ensure requisite amount of flexibility for NSDC and to preserve its "private sector" character, the Union Cabinet, in its meeting held on November 27, 2008 approved a "two part" structure for implementing the scheme of NSDC as was envisaged in the earlier Cabinet approval:

i) Incorporation of a Section 25 "not for profit" company(NSDC) with initial authorized capital of Rs.10 crore, 51% of which shall be privately held.

ii) Incorporation of a Trust [National Skill Development Fund (NSDF)], fully owned by Government, to act as a receptacle of funds from Government and private sources, bilateral/multilateral and other agencies.

4.1.3 NSDC was registered on July 31, 2008. Eight private sector associations contributed @ Rs.51 lakh each towards the equity of NSDC. At present, the total contribution received is Rs.7.08 crore, which includes Rs.3 crore from Government. The Board of NSDC has met twice so far and ambitious work plans, to give effect to its vision and roadmap, are under preparation.

4.1.4 NSDF was registered as a Trust under the Indian Trusts' Acts, 1861 on January 6, 2009. The entire sum of Rs.1000 crore(net of the contribution already committed to NSDC) is in the process of being credited to the Fund. Subsequently, vide Investment Management Agreement (IMA) between NSDC and NSDF, the funds credited to NSDF shall be made available to NSDC from time to time on the basis of action/work plans submitted by it to the Trust.

4.2 ADB Branch

4.2.1 ADB Assistance in 2008

During the year 2008, 11 loans worth US$ 1801.65 million was approved against a contract awards target of US$730.5 million an amount of US$1146.1 million was achieved and disbursements of US$1506.9 million were achieved against the target of US$1371.7 million.

4.2.2 New initiatives

4.2.2.1 During 2008, based on the results of an ADB TA, a Tourism Infrastructure Development Project has been approved to be funded in 2009 for an amount of US$300 million and the work of Project Preparation was initiated in five states.

4.2.2.2 An ambitious **Khadi Reforms & Development Programme** has been approved in 2008 for an amount of US$ 150 million through the ADB. While the programme will be initiated in 300 select Khadi Institutions (KI) willing to undertake identified reforms, it will also pave the way for global reforms in the sector such as establishment of an image of Khadi by way of a specific Mark, institutional reforms within KVIC, restructuring plan for weak KIs and an incentive for facilitating market linkage for all KIs. Over the last two years, ADB has supported the strengthening of PPP cells and capacity building in select States and select Central (Infrastructure) Line Ministries through a Technical Assistance of US$7 million. In 2008, a new **TA has been approved for an amount of US$2 million for structuring projects and sharing project development expenses for pilot PPP projects** including those in the social sector.

4.3 Public Private Participation(PPP) Cell

4.3.1 The PPP Cell is responsible for matters concerning Public Private Partnerships, including policy, schemes, programmes and capacity building.

4.3.2 The PPP Cell serves as the Secretariat for the PPP Appraisal Committee (PPPAC), which has been constituted with the approval of Cabinet Committee on Economic Affairs to establish an appraisal mechanism and guidelines for PPP projects in the Central Sector. The PPPAC is chaired by Secretary, Economic Affairs. Since its constitution in January 2006, PPPAC has granted in-principle/ final approval to 96 projects, with a total project cost of Rs.96502.806 crore. During 2008, PPPAC granted approval to 53 projects with a total project cost of Rs.66726.44 crore. In addition, two port projects were given approval in January, 2009.

4.3.3 The PPP Cell implements the “Scheme for Financial Supports to PPPs in Infrastructure (Viability Gap Funding Scheme)” which provides VGF up to 20% of the project cost as capital grant of the PPP projects. So far, under the Viability Gap Funding Scheme, 34 proposals have been granted in-principle/ final approval by the Empowered Institution with a total project cost of Rs.24799.87 crore and an estimated viability gap funding of Rs.5434.19 crore; 10 projects were granted approval with a total project cost of Rs.13781.09 crore and an estimated viability gap funding of Rs.2763.05 crore during 2008.

4.3.4 The Union Finance Minister in his Budget Speech for 2007-08 announced in the Parliament the setting up of a Revolving Fund with a corpus of Rs.100 crore to accelerate the process of project preparation, for providing financial support for quality project development activities to the States and the Central Ministries; the Guidelines for India Infrastructure Project Development Fund (IIPDF) Scheme have been notified, which contributes up to 75% of the project development expenses. Since its notification in December 2007, 16 projects have been granted approval with a project development cost of Rs.11.18 crore and IIPDF assistance of Rs.8.39 crore.

4.3.5 To meet the capacity building requirements of the public institutions and officials for preparing a pipeline of credible, bankable projects that can be offered to the private sector through competitive bidding process as well as to manage the PPP process, 14 State Governments and 3 Central Ministries are being provided with Technical Assistance from Asian Development Bank in the form of in-house PPP experts, financial/risk experts, MIS experts and access to a panel of legal firms.

4.3.6 To intensify and deepen the capacity building of public functionaries at the State and Municipal level, framework for developing a comprehensive national training programme on PPP was developed. Consequently, a curriculum for training at State Administrative Institutes and a ‘Training of Trainers’ programme is being developed in collaboration from multilateral agencies. Training courses and exposure programmes for public officials were organized. PPP Nodal officers’ are invited from States and Central Ministries for regular interactions on capacity building.

4.3.7 For clarity on Government initiatives and dissemination of information on the various schemes and programmes of the Government of India to facilitate development of infrastructure through public private partnerships, the under mentioned documents were published and circulated.

- "Public Private Partnerships – Creating an Enabling Environment for State projects"
- Guidelines for formulation, Appraisal and Approval of Central Sector PPP projects
- Scheme and Guidelines for Financial Support to PPPs in Infrastructure
- Scheme and Guidelines for India Infrastructure Project Development fund
- Panel of Transaction Advisers for PPP Projects: A guide for use of the Panel

4.3.8 A website www.pppinindia.com has been launched which is exclusively devoted to PPPs and serves as a virtual resource hub on PPP projects, policies and initiatives. The website developed significant linkages with State PPP units during 2008 to provide information on State initiatives. The website underwent technology and content upgradation. An online database on the PPP projects in the country www.pppinindiadatabase.com were developed and launched during 2008 to provide comprehensive and current information on the status of infrastructure sector PPPs. The 'online' database on PPP projects currently provides information on 300 PPP projects in infrastructure sectors in the country on 40 indicators.

4.4 **Currency & Coinage Branch**

4.4.1 Consequent upon corporatisation of four India government mints, four security presses and one security paper mill to fully owned CPSE, namely, Security Printing and Minting Corporation of India Limited (SPMCIL), the employees of these units were working in the SPMCIL on 'deemed deputation' basis since 10/02/2006.

4.4.2 After about two-and-a-half years of deliberations in several rounds with the representatives of the employees' unions/associations, a Memorandum of Settlement laying the framework for conditions of service under the corporation has been signed on 15th September, 2008 by the representatives of all three parties, i.e., the Government of India, the Corporation and the representatives of the employees' unions/associations in presence of the Chief Labour Commissioner. The employees have submitted their 'Option Form' for absorption in the SPMCIL/remaining in the Government which are effective from 1st November, 2008.

4.4.3 The Government have released following commemorative coins during the year 2008 :

a) 150th Anniversary of First War of Independence

b) 75th Martyrdom/Centenary of Shahid Bhagat Singh

c) Ter-Centenary of Gur-ta-Gaddi of Shri Guru Granth Sahib

d) Birth Bi-Centenary of Louis Braille

5. Fund Bank Division

5.1 World Bank Group

India is a member of the four constituents of the World Bank Group viz., International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA). India has been borrowing from the World Bank (mainly through IBRD and IDA) for various development projects.

5.2 International Bank for Reconstruction and Development (IBRD)

The total assistance extended by IBRD by way of loans to India has been US$ 29956.262 million as on 31.12.2007. During the period from 01.01.2008 to 31.12.2008, new commitment of US$ **1306.0** million were approved making it US$ 31262.262 million in all as on 31.12.2008. The sectors for which IBRD assistance has been provided are roads & highways, energy, urban infrastructure (including water & sanitation), rural credit and the financial services sector.

5.3 International Development Association (IDA)

The total assistance extended by IDA by way of credits to India for which agreements were signed was US$ 31,678.16 million as on 31.12.2007. During the period from 01.01.2008 to 31.12.2008, new commitment of US$ **1259.4** million were approved making it US$ 32937.56 million in all as on 31.12.2008. The major sectors for which IDA assistance is provided are health, education, agriculture and poverty reduction sectors.

5.4 **Projects approved / signed during the Calendar Year 2008:**

(in US$ millions)

Sl. No.	Project name	Date of Approval/ Signing	IBRD COMM AMT	IDA COMM AMT	TOTAL AMT
1	Power System Development IV- Additional Financing	21-Oct., 08	400.0	0.0	400.0
2	Orissa Community Tank Management Project	30-Sep.,08	56.0	56.0	112.0
3	India Orissa State Roads Project	30-Sep.,08	250.0	0.0	250.0
4	National Vector Borne Disease Control & Polio Eradication Support Project	31-Jul.,08	0.0	521.0	521.0
5	Orissa Rural Livelihoods Project	31-Jul.,08	0.0	82.4	82.4
6	Elementary Education (SSA II)	15-May,08/ 14-Aug.,08	0.0	600.0	600.0
7	Power System Development Project- IV	18-Mar.,08/ 28-Mar.,08	600.0	0.0	600.0
8	Rampur Hydropower Project	13-Sep.,07/ 15-Jan.,08	400.0	0.0	400.0
9	Bihar Development Policy Operation - I	20-Dec.,07/ 15-Jan.,08	150.0	75.0	225.0
10	Andhra Pradesh Rural Poverty Reduction – Additional Financing	10-Jul-07/ 25-Jan-08	0.0	65.0	65.0

5.5 **In addition to above following Projects relating to International Fund for Agricultural Development(IFAD) were also signed during the Calendar Year:**

(in US$ millions)s

Sl. No.	Project name	Date of signing	Loan/ Credit Amount
1	Mitigating Poverty in Western Rajasthan	17.10.2008	30.3
2	Women's Empowerment & Livelihood Program in Mid-Gigantic Plain	11.12.2008	30.2

5.6 **United Nations Development Programme (UNDP) in India**

5.6.1 UNDP has been India's partner in development, with a presence in the country since 1951. The overall mission of the UNDP is to assist the programme countries through capacity development in Sustainable Human Development (SHD) with priority on poverty alleviation, gender equity, women empowerment and environmental protection. All assistance provided by the UNDP is grant assistance.

5.6.2 UNDP derives its funds from voluntary contributions from various donor countries. India's annual contribution to the UNDP is US$ 4.5 million, one of the largest from developing countries.

5.7 **Country Cooperation Framework (CCF)**

5.7.1 The country-specific allocation of UNDP resources used to be made every five years under the Country Cooperation Framework (CCF) which usually synchronized with India's five-year plans. The last CCF (CCF-II) synchronized with 10th Five-year Plan (2003-07) and focused on thematic areas (i) promoting human development and gender equality, (ii) capacity-building for decentralization, (iii) poverty eradication and sustainable livelihoods and (iv) vulnerability reduction and environment sustainability.

5.7.2 The total resource base of CCF-II was US$ 190 million, of which core resources were US$ 93 million. Twenty six projects worth US$ 114.38 million were approved under CCF-II.

5.8 New Country Programme

5.8.1 The Country Programme (CP): 2008-12, adopted in the UNDP Executive Board in September, 2007, was formulated by the GOI and UNDP Country Office based on the United Nations Development Assistance Framework (UNDAF) goal on 'promoting social, economic and political inclusion for the most disadvantaged, especially women and girls'. This is in harmony with the thrust of the 11th Plan on inclusive growth. The new CP will primarily concentrate on the thematic areas, namely democratic governance, poverty reduction, HIV and development, disaster risk management, and Energy and Environment. It will focus on the seven economically laggard states - Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh.

5.8.2 The total resource requirement for the new CP is estimated at US$ 200-250 million, out of which one-third would be Core, one-third Non-core and remaining mobilized from UN Trust Funds etc.

5.8.3 The Country Programme Action Plan (CPAP) which will guide the UNDP programmes during the period 2008-12, was signed between DEA and UNDP on 27.2.2008, and will remain in force till 31 December 2012.

5.8.4 Following projects have been endorsed so far under the CPAP: 2008-2012:

1. State level Support to Livelihood Promotion Strategies;
2. Financial Inclusion;
3. Access to Justice for Marginalised People.;
4. Capacity Development for District Planning;
5. Supporting National Development Objectives with Co-benefits of Mitigating Climate Change;
6. Supporting National Efforts towards Conservation of Natural Resources; and
7. Supporting National Efforts to Address Chemical Management Issues.

5.8.5 UNDP is negotiating the Annual Work Plans with respective Implementing Ministries/Departments and State Governments.

5.9 India and the International Monetary Fund (IMF):

- The International Monetary Fund (IMF) was established along with the International Bank for Reconstruction and Development at the Conference of 44 nations held at Bretton Woods, New Hampshire, USA in July 1944. IMF is the principal International Monetary Institution established to promote a cooperative and stable global monetary framework. At present, 185 nations are members of the IMF.
- India is a founder member of the IMF. India has not taken any financial assistance from the IMF since 1993. Repayment of all the loans taken from International Monetary Fund has been completed on May 31, 2000.
- India's current quota in the IMF is SDR (Special Drawing Rights) 4,158.2 million in the total quota of SDR 217,314.8 million, giving it a share holding of 1.91%. India's relative position based on quota is 13th. However, based on voting share, India (together with its constituency countries viz. Bangladesh, Bhutan and Sri Lanka) is ranked 22nd.
- The Resolution on Quota and Voice Reform adopted by the Board of Governors on the occasion of the Fund's Annual Meeting in Singapore in September 2006 (Resolution 61-5, September 18, 2006) (the "Singapore Resolution") requested that the Executive Board complete within two years a reform program to enhance the credibility and effectiveness of the Fund, building on the first step taken in the Singapore Resolution.
- Accordingly, after continuous discussions and consultations with member countries, the IMF's Board of Governors **on April 28, 2008** endorsed the reforms in quota and voting structure of IMF. This

endorsement marks an important milestone in realigning the quota and voting structure of the IMF to reflect the relative economic weights of economies in the world. It marks the first step in a long and protracted struggle by developing countries for a greater say in organizations under the UN umbrella. India has been at the forefront of these initiatives since inception.

- The decision will result in an increase in the voice and representation of Emerging Market Economies, Developing Countries and Low Income Countries. A total of 54 countries out of a total membership of 185 will see their quota shares increase from pre-Singapore Annual Meeting (2006) levels, ranging from 12 to 106 percent. Dynamic emerging markets like Korea, Turkey, China, Brazil and India are the main beneficiaries. India's quota will register an increase of 40% in absolute terms and 28% increase in terms of share in global totals.

- Overall 135 countries will see an increase in voting shares, reflecting both the increase in quota shares and the tripling of basic votes from earlier levels. The aggregate shift in voting shares for these 135 countries is 5.4 percentage points, including substantial increases for low income countries.

- **India's actual quota share would increase from 1.91 percent to 2.44 percent, while its vote share would increase from 1.88 percent to 2.34 percent.** In the process, India would improve its relative position in both quota and vote shares to the **11th highest** (from the present 13th), amongst 185 strong entire membership. In the Indian constituency, Bhutan has received a 167 percent increase in voting share compared to pre-Singapore levels.

- The quota increases would become effective after adoption by three-fifth of member countries having 85% of the total voting power, of the relevant amendment of IMF's Articles of Agreement. India has already conveyed its acceptance of the said Voice & Participation amendment.

5.9.2 **IMF's Article IV Consultations**

- As part of its mandate for international surveillance under the Articles of Agreement of IMF, the IMF conducts what is known as Article IV Consultations to review the economic status of the member countries, normally, once a year. Article IV consultations are generally held in two phases. Latest round of Article IV Consultations with India took place in December 2008.

5.9.3 **Participation by India in Financial Transactions Plan (FTP) of IMF**

- India agreed to participate in the Financial Transaction Plan of the IMF in late 2002. Forty-three countries, including India, now participate in FTP. By participation in FTP, India is allowing IMF to encash its rupee holdings as part of our quota contribution, for hard currency which is then lent to other member countries who are debtors to the IMF.

- From 2002 to December 2008, India has made thirteen purchase transactions of SDRs 810.23 Million and twenty-four repurchase transactions of SDRs 794.16 Million.

5.10 **Committee on Financial Sector Assessment(CFSA)**

Recognizing the need to persevere with the financial sector development and with a view to assessing the financial stability and the status of implementation of financial standards and codes, RBI in consultation with the Government of India had constituted in 2006, a Committee on Financial Sector Assessment.

- The Committee is chaired by Dr. Rakesh Mohan, Deputy Governor, Reserve Bank of India with Secretary (Economic Affairs) as its co-chairman. The Committee for the self assessment exercise will use, inter alia, the detailed handbook on Financial Sector Assessment published jointly by the World Bank and the IMF.

- Since commencement of its work, Eleven meetings of the Committee on Financial Sector Assessment (CFSA) has been held up to December 2008 and the Committee is likely to shortly finalise and submit its report to the GOI.

5.11 **India and the G 20**

- This international forum of Finance Ministers and Central Bank Governors represents 19 countries, the European Union and the Bretton Woods Institutions (the IMF and World Bank).

- In the year 2008, the G-20 Ministerial meeting was held at Sau Paulo, Brazil on 8th-9th November, 2008.

- The Sessions in the meeting were on: Financial Stability and Global Economy: Development and Policy Responses; Fiscal Policy Reponses to the Global Financial Crisis; Global Markets and Inflation: Development and Policy Responses; Improving International Governance and Enhancing the Effectiveness of the G20 and Preparing for Leaders' Summit on Financial Markets and the World Economy *(Finance Minister was Lead Discussant in this session).* Shri P. Chidambaram, then Finance Minister had led the Indian Delegation for the meeting.
- Subsequently, Shri P. Chidambaram, then Finance Minister and Shri Ashok Chawla, Secretary (Economic Affairs) ***(as part of the Prime Minister's Delegation)*** participated in the G-20 Summit on Financial Markets and the World Economy and related events held during 13^{th}-15^{th} November in Washington D.C.
- After the G20 Summit Meeting in Washington D.C. on 15^{th} November 2008, the Leaders of Group of Twenty (G20) issued a declaration, inter alia, outlining "Root Causes of the Current Crisis", "Actions taken and to Be Taken". Further, the declaration has put forth a comprehensive "Action Plan to Implement the Principles for Reform" as part of the coordinated response to the global financial turmoil.
- In so far as the issues in the "Action Plan" relate to India and to consider and recommend changes that may be required, a High Level Committee has been constituted vide this department's memorandum dated 5^{th} December 2008 with Shri Ashok Chawla, Secretary (Economic Affairs) and Dr. Rakesh Mohan, Deputy Governor, RBI as co-chairs of the committee.
- The Committee is intends to prepare an interim report by end of January, 2009 so as to allow sufficient time to consult eminent non-government / independent experts to finalise the report by April 2009 when the G-20 Leaders meet again to review the implementation of the principles and decisions agreed upon in the Washington Summit.

6. Foreign Trade Division

6.1 This Division handles issues pertaining to Russia and CIS countries, Technical Assistance, African Development Bank, Investment Commission, Foreign Investment Promotion Board (FIPB) and Lines of Credit, it also provides advice to the Ministry of Commerce, especially from foreign exchange angle, on policies pertaining to Indian foreign trade including matters connected with WTO and Free Trade Agreement (FTA). In bilateral and multilateral trade negotiations, this division anchors the "financial services" part of the negotiations.

6.2 The detailed performances of the each section in the year 2008 are as under:

CIE - I Section

6.2.1 **African Development Bank**

India has participated in the Annual meeting of the African Development Bank held in Maputo, Mozambique from 11-15 May, 2008. Mr. Laurent Guye, ED, African Development Bank Group visited India during 23-29^{th} Nov.,2008 and during his visit, Business Opportunity seminars were organized at New Delhi and Mumbai jointly by African Development Bank Group and EXIM Bank.

CIE.II Section

6.3 **GOI supported lines of credit extended to foreign countries**

In the year 2008, Fifteen (15) proposals have been approved for extending them Lines of Credit, amounting to total of US$ 672.68 million. With this, the number of countries whom such LOCs have been approved comes to 51 (a total of 96 LOCs amounting to a total of US$ 4925.71 million).

6.4 **FIPB Unit**

6.4.1 The Foreign Investment Promotion Board is a single window clearance for FDI proposals and comprises the core Group of Secretaries of Department of Economic Affairs, Department of Industrial Policy & Promotion, M/o Small Scale Industries, D/o Revenue, D/o Commerce, M/o External Affairs and M/o Overseas Indian Affairs. FIPB is chaired by the Secretary of the Department of Economic Affairs and its meetings are held twice a month.

6.4.2 FDI Proposals seeking FIPB approval are handled in this Department and proposals of NRI Investment, Foreign Technology transfer trademarks agreement and FDI in 100% EOUs are handled in the Ministry of

Commerce & Industries, Department of Industries Policy & Promotion (DIPP). The FDI Policy and FDI Data are also handled in the DIPP. During the Financial year 2007-08, total 19 meetings were held in which 509 items were considered and 341 proposals were approved. The FDI inflow involved was approximately Rs. 20519.48 Crores. During the Financial year 2008-09 (up to December 2008) total 15 meetings were held in which 468 items were considered and 299 proposals were approved. The FDI inflow involved was approximately Rs. 16011.62 Crores.

6.5 **FIU**

The first report of the Investment Commission titled ***"Investment Strategy in India"*** was submitted in February 2006 with 149 recommendations, and the second report titled ***"Thrust Areas"*** with 137 recommendations was submitted in December 2007. These recommendations are being followed up with the Departments / Ministries concerned for necessary action.

IC Section

6.6 **Bilateral Investment Promotion and Protection Agreement (BIPA)**

6.6.1 The objective of Bilateral Investment Promotion and Protection Agreement is to promote and protect the interests of investors of either country in the territory of other country. Such Agreements increase the comfort level of the investors by assuring a minimum standard of treatment in all matters and provides for justifiability of disputes with the host country. As on 26.1.2009, India has signed BIPAs with 73 countries out of which 63 BIPAs have already come into force and the remaining agreements are in the process of being enforced. In addition, agreements have also been finalized and/ or being negotiated with a number of other countries.

6.6.2 During the Calendar year 2008, 5 (five) BIPAs were signed viz with Uruguay, Macedonia, Syrian Arab Republic, Myanmar and Senegal. During this year, 6(six) BIPAs which were signed earlier have come into force viz those with Bosnia & Herzegovina, Mexico, Hellenic Republic (Greece), Saudi Arabia, Macedonia and Iceland.

6.7 **Overseas investment policy**

The policy for Indian direct investment abroad has been substantially liberalized from time to time. Indian Corporates/ Partnership firms have been allowed to invest in entities abroad up to 400% of their net worth in a year as on the date of the last audited balance sheet, without prior approval of Reserve Bank or Government of India. RBI vide their A.P.(DIR Series) Circular No.07 dated 13th August 2008 in partial modification of Notification No. FEMA 120/2000-RB dated 7th July 2004 has further liberalized the policy under automatic route and permitted the Registered Trusts and Societies engaged in manufacturing/educational sector to make investment in the same sector(s) in a Joint venture or Wholly owned Subsidiary outside India, with the prior approval of Reserve Bank. Further Registered Trusts and Societies which have set up hospital(s) in India have also been permitted to make investment in the same sector(s) in Joint Ventures or Wholly Owned Subsidiary outside India, with the prior approval of Reserve Bank.

6.8 **Overseas investment approvals**

During the Calendar year 2008 (January 08 to September 2008), as per RBI, Mumbai's data, 2445 approvals were granted to Indian companies for overseas investments worth US$ 13577.32 million as equity, loan and guarantee.

TA Section

6.9 **Matters relating to bilateral relations with Russia**

The Indo-Russian Joint Task Force deals with settlement of Inter-Governmental financial obligations. The General Letter of Exchange was signed between the Government of India and the Government of the Russian Federation on 12.11.2007 permitting the Russian Federation to utilise the accumulated amounts at the central accounts of Vnesheconombank with the RBI for any investment projects on the territory of the Republic of India subject to certain conditions. Earlier such amount was to be used only for export of goods and services from India to Russia.

6.10 **Technical Cooperation Scheme (TCS) under Colombo Plan**

During the period under review, around 370 scholars of 18 Colombo Plan member countries have attended training in 42 institutes of India under the TCS of Colombo Plan. The areas of training covered human resource development, audit and accounts, commerce, information technology, computers education, parliamentary matters, rural development, textile, water resources, medical sciences, engineering, financial management, insurance, etc.

WTO Section

6.11 During the year, several issues pertaining to financial Services under the GATS at WTO and negotiations under Free Trade Agreements, Regional Trade Agreements and Comprehensive Economic Cooperation covering financial services with Japan, Korea, Sri Lanka and EU were taken up.

6.12 **SAARC Development Fund**

The 15th SAARC Summit was held in Colombo on August 2-3, 2008 where Charter of SAARC Development Fund (SDF) was signed.

7. Aid Accounts and Audit Division

7.1.1 This Division, which is a part of the External Finance Wing of the Department of Economic Affairs, is responsible for various functions relating to external loans/grants obtained by Government of India from various multilateral and bilateral donors. The functions handled by the Division include interaction with Project Implementing Agencies and Donors, processing of claims received from projects and arranging of draw down of funds from various donors, timely discharge of debt service liability of Government of India towards various loans obtained, maintenance of loan records, external debt statistics, compilation of various management information reports, publication of external assistance brochure on annual basis and framing of Budget Estimates of aid receipts and debt servicing. In addition, this Division caries out audit of import licenses issued to registered exporters for export promotion by the 40 licensing offices (including export processing Zones) under DGFT.

7.1.2 The position of disbursement of External Aid, Repayment and Net Flow up to the month of December, 2008 during the current financial year is as under:

(Rs. in crore)

Sl. No.	Particulars of Disbursement and payment	BE 2008-09	RE 2008-09	Actual upto December, 2008
1	**Receipt**			
	i) Loan	19209.93	19578.35	13755.22
	ii) Grants	1755.31	2745.52	2020.68
	Total	**20965.24**	**22323.87**	**15775.90**
2	Repayments	8220.66	9975.15	7079.42
3	**Net Receipts on CapitalAccount**	**12744.58**	**12348.72**	**8696.48**
4	Interest payment on loans including commitment charges	4143.17	4158.80	2865.15
5	**Net of Repayment and Interest Payments**	**8601.41**	**8189.92**	**5831.33**

7.2 **E-Governance**

7.2.1 Entire work activities of Aid Accounts and Audit Division have been fully computerized since April 1999, based on an on-line system namely “Integrated Computerised System (ICS)”. ICS covers all the activities in the loan cycle, preparation of budget for external assistance both for receipt and repayment, preparations of annual external assistance brochure and in maintaining update CS-DRMS. The on-line system ICS has contributed to enhance functional efficiency of this office, apart from enabling close monitoring of all the work activities. All the officers and staff members of this Division have been trained for functioning under computerised work environment.

7.2.2 A comprehensive Web-site on External Assistance is being maintained by this Division under website address http://finmin.nic.in/caaa for the benefit of all Credit Divisions, State Governments, Project Authorities, and Donors, etc. This website contains comprehensive information relating to disbursement status Donors-wise, Loan/Credit/Grant-wise, State-wise, Sector-wise on a monthly, quarterly, and yearly basis. The Website is updated monthly. Website also provides up-to-date status of claim submitted by the Project Implementing Agencies covering the entire claim cycle i.e. from receipt of claim up to ACA release.

7.2.3 Possibility of receiving the claims with projects through E-submission has been tested and the work is in progress. This will help in early submission of claims to donors.

8. Administration Division

8.1. Functions

Administration Division is responsible for personnel and office administration of the Department and implementation of official language policy of the Government in Department of Economic Affairs and its attached/ subordinate offices. The Administration Division also monitors the policies and programmes relating to reservation for SC/ST/OBC/Ex-Servicemen/Persons With Disabilities etc. in Department of Economic Affairs.

8.2. Grants in aid

Department of Economic Affairs supports economic research institutions under the scheme. During the year 2008-09 (upto 31-12-2008), an amount of Rs 15 lakhs has been released as grants in aid to Indian Law Institute.

8.3 Complaints Committee on Sexual Harassment of Women Employees

A Complaints Committee for considering complaints of sexual harassment of women employees in Department of Economic Affairs has been set up.

8.4 Use of Hindi in Official Work

During the year under report, progress made in the implementation of various provisions under the Official Language Policy of the Government continued to be reviewed. All documents required to be presented in Parliament were provided bilingually. Section 3(3) of Official Language Act, 1963, and Rule 5 of Official Language Rules, 1976 made thereunder and other instructions issued by the Department of Official Language were fully complied with. A number of steps were taken in the Department to promote the use of Hindi in official work during the year:

- Annual programme for the year 2008-09 issued by the Department of Official Language was circulated to all the attached/subordinate offices/ divisions/ sections under the Department and all efforts were made to achieve the targets fixed therein.
- During the year two meetings of Hindi Salahkar Samiti of the Department was held on June 26, 2008. Compliance of the decisions taken in these meetings was ensured.
- Hon'ble Minister of Finance in his "Message" on the auspicious occasion of Hindi Day on 14th September appealed to the officers and staff of the Ministry of Finance as well as the Offices under its control to do their official work in Hindi.
- In order to remove the hesitation amongst officials to do their official work in Hindi and to acquaint them with the rules and other instructions regarding the Official Language Policy of the Govt.
- To create a conducive atmosphere in the Department regarding the progressive use of Hindi, *Hindi Fortnight* was celebrated during 14th to 28th September, 2008. On the occasion, various Hindi competitions namely Hindi Noting and Drafting, Essay Writing, Hindi Typing and Shorthand, Poem Recital and Debate etc. were conducted and cash awards were given to the winners on the merits. In compliance of the decision of the Hindi Salahkar Samiti, the amount as well as the numbers of prizes were substantially enhanced.
- The amount of first, second and third prizes under the Scheme of Incentive on Original Book writing in Hindi on Economic subjects have been enhanced from Rs. 20,000 to Rs. 50,000, Rs. 15,000 to Rs. 40,000 and Rs. 10,000 to Rs. 30,000 respectively.
- The website of the Department was fully rendered bilingual. Besides other material, all Budget documents, Economic Survey and other publications and important circulars are uploaded simultaneously in Hindi and English.

- Sections of the Department and other offices under its control were inspected to see the extent upto which the Official Language Act, the rules made thereunder, the Annual Programme and the orders and instruction etc. relating to Official Language are being complied with.
- Meeting of the Official Language Implementation Committee of the Department were held regularly in which the progress of implementation of Official Language Policy was reviewed and appropriate action on the suggestions given therein was taken.

8.5 **Finance Library & Publication Section**

8.5.1 Finance Library & Publication Section was established in 1945. Finance Library functions as the Central Research and Reference Library in the Ministry and caters to the needs of Officers of all the three Departments, Ad-hoc Committees and Commissions set from time to time and research scholars from the various universities in India as well as abroad. This Library also serves as the Publications Section of the Ministry, coordinating the procurement and distribution of official documents with the various institutions/ individuals on demand in India and abroad.

8.5.2 Finance Library has been categorized as Grade III Library on the basis of Department of Expenditure's O.M. No. 19(1)/IC/85 dated 24.07.1990. All the posts in the library are ex cadre posts.

8.6 **Collection**

Library has specialized collection of more than two lakh documents on Economic and Financial matters and subscribe to more than 800 periodicals/newspapers annually.

8.7 **Electronics Resources**

Electronic resources include the following CD-ROM databases:

- Census of India 2001
- CMIE publications
- DGCI&S - Foreign Trade Statistics of India
- DGCI&S - Statistics of Foreign Trade of India
- DGCI&S - Monthly Statistics of Foreign Trade of India

Economic Survey:

- IMF - Balance of Payments Statistics
- IMF - Direction of Trade Statistics
- IMF - Government Finance Statistics
- IMF - International Financial Statistics
- RBI – Banking Statistics & Basic Statistical Returns
- The World Bank - World Development Indicators
- The World Bank - Global Development Finance
- UN- International Trade Statistics Year Book
- Union Budget.

8.8 **Services**

Library provides different kinds of services viz. lending, inter-library loan, consultation, reprographic, circulation of newspapers and magazines, reference service, current awareness service through "WEEKLY BULLETIN". The Finance Library also undertakes the work of distribution of publications of Ministry of Finance and Reserve Bank of India to State Governments, Foreign Governments and renowned institutions in India as well as abroad. The Finance Library also undertakes the work scanning the public grievances appearing in the leading newspapers relating to the Department of Economic Affairs.

8.9 **Publications**

Finance Library compiles one weekly publication i.e. "Weekly Bulletin" a subject bibliography indexing articles of interest from about 200 journals/newspapers. The Library has entered into an agreement with JSTOR to provide online access to about 200 full-text journal archives related to Economics.

8.10 **Computerization**

The Library has computerized almost all its activities. The Library uses LIBSYS Library package for database management, retrieval, Library automation and other in-house jobs. The internet facility is also available in the Library through which information is provided to the officers of Ministry of Finance. Accessibility of the online data is concern; a link from internet site "finance.nic.in" is made available to access the information.

9. Bilateral Cooperation Division

9.1.1 Bilateral Cooperation Division of Department of Economic Affairs is the main interface for Government of India in respect of Bilateral Development Cooperation. The policy on development cooperation was reviewed in 2003-04 which allowed development assistance from all G-8 countries, namely, USA, UK, Japan, Germany, Italy, Canada and Russian Federation as well as the European Commission. At present, Japan, UK, European Commission and Grmany are the major active bilateral development partners of India. This Division also monitors the progress of implementation of the Externally Aided Projects (EAPs) together with release of Additional Central Assistance (ACA) to the States.

9.1.2 BC Division also serves as nodal point for India's participation in important international economic forum such as G-8, OECD, High-Level Forum on Aid Effectiveness, UN Conference on financing for development.

9.1.3 As part of its work of promoting bilateral economic relations with India's partners, BC Division organises important high level bilateral dialogues such as Indo-British EFD, Indo-EU Macroeconomic Dialogue, Indo-German Joint Commission on Industrial & Economic Cooperation, Indo- Japan High Level Dialogue, Indo - Japan Strategic Dialogue and India - US Financial and Economic Forum.

9.2 The salient activities of BC Division during 2008 are given below:

Development Cooperation

9.2.1 **Japan**

During the calendar year 2008, disbursement of Japanese ODA to India was JPY 113.338 bln. (Rs.4712.08 crore).

9.2.2 The Exchange of Notes and Loan Agreements were signed during the calendar year 2008 for the following projects:

S. No.	Name of the project	Loan amount (In Yen Bln.)
1.	Haryana Transmission System Project	20.902
2.	Delhi Mass Rapid Transport System Project (Phase.2)(III)	72.100
3.	Kolkata East-West Metro Project	6.437
4.	Hyderabad Outer Ring Road Project (Phase 1)	41.853
5.	Uttar Pradesh Participatory Forest Management and Poverty Alleviation Project	13.345
6.	Hogenakkal Water Supply & Flourosis Mitigation Project	22.387
7.	Tamil Nadu Urban Infrastructure Project	8.551
8.	Chennai Metro Project	21.751
9.	Hyderabad Outer Ring Road Project (Phase 2)	42.027
10.	Capacity Development for Forest Management and Personnel Training Project	5.241
11.	Micro, Small and Medium Enterprises Energy Saving Project	30.000

9.2.3 Note Verbale were exchanged with Government of Japan for the following projects under Development Study Programme:

(a) Study of Improvement of Water Supply System in Delhi

(b) Study on Improving Operations in Thermal Power Plants

(c) Study on Formulation of Manual for Sewerage and Sewage Treatment

(d) Comprehensive development and management of land and water resources in Kolasib district.

9.2.4 A Bilateral Currency Swap Agreement has been signed on June 29, 2008 between the central banks of India and Japan.

· The swap arrangement is essentially an agreement to exchange and re-exchange a 'maximum' amount of USD 3 billion for the domestic currency at the spot rate to meet temporary BOP problems faced by India or Japan, for an initial period of three months. The arrangement can be renewed for a maximum number of seven times for periods of ninety days each (total period six hundred and thirty days).

· The requesting party would have to pay interest at LIBOR + 150 basis points which would be reset at the time of every renewal. The exchange rate will also be reset at every renewal.

· The agreement would be effective for a three year period (the drawing period) commencing from the effective date i.e. the date of signing of the Agreement.

9.2.5 The Memorandum of Understanding for the "Model Project for converting a diesel engine to dual-fuel operation" under Japanese Green Aid Plan was signed on July 23, 2008 among Ministry of Finance, Ministry of Power , M/s Tata Motors Ltd. and New Energy and Industrial Technology Development Organisation, Government of Japan (NEDO). The project is being implemented at M/s Tata Motors Limited, Pimri, Pune, for a period of three years. The objective of the project is to contribute to the reduction of heavy oil consumption and thereby to the protection of environment in India.

9.2.6 The Memorandum of Understanding for the "Model Project for Highly Efficient coal preparation technology" under Japanese Green Aid Plan was signed on October 3, 2008 among Ministry of Finance, Ministry of Coal , Monnet Ispat and Energy Limited, and New Energy and Industrial Technology Development Organisation, Government of Japan (NEDO). The project is being implemented at UTKAL B2 Coal Mine, Angul, Orissa, for a period of three years. The objective of the project is to contribute to the resolution of energy and environmental problems caused by coal utilization in India through the widespread dissemination of highly efficient coal preparation technology.

9.3 U.S.A.

USA has been extending economic assistance to India since 1951. US Development Assistance is channelised through US Agency for International Development (USAID). Presently, US Development Assistance is received in the form of grant and is available as project assistance. **Assistance disbursed in 2008-09 was of the order of Rs.31.66 crore (till December 2008)** as compared to Rs. 64.115 crore disbursed in 2007-08. At present there are 9 ongoing projects supported by USAID in the following areas:

1. Health – Family Welfare, AIDS Control
2. Energy
3. Capacity Building
4. State Fiscal Reforms

9.4 Canada

9.4.1 Canadian Economic Assistance to India started in 1951. Till March 2007, the total aid to India had been around C$ 2.743 billion. The assistance mainly comprised of Development assistance, food and technical assistance. Canadian assistance is channelised through the Canadian International Development Agency

(CIDA). The assistance extended by CIDA since 1st April 1986 has been in the form of grant.

9.4.2 In the year 2006-07, Canada has started extending grant assistance for local initiatives (CFLI) to India. During 2007-08 15 proposals involving grant assistance of CAD 0.510 million have been cleared as compared to 13 proposals involving grant assistance of CAD 0.52 million in 2006-07. During 2008-09 12 proposals are under consideration for CAD 0.46 million.

9.5 **European Commission**

The Financing Agreements on second phases of Sector Policy Support Programme for 'National Rural Health Mission/Reproductive & Child Health (NRHM/RCH II)', Sarva Shiksha Abhiyan (SSA II)', India-Strand Erasmus Mundus External Cooperation Window (EMECW) and Institutional Capacity Building of the Civil Aviation Sector in India (ICCA) were signed.

9.6 **U.K.**

During the year 2008, three new projects were signed with the Government of U.K for a total DFID financial support of £ 191 million.

9.7 **Commonwealth Fund for Technical Cooperation**

Government of India has pledged to contribute £ 950,000 to CFTC for the year 2008-09. The payment is being transferred to CFTC

9.8 **Federal Republic of Germany**

9.8.1 In 2008, India and Germany agreed on the Strategic Framework for development cooperation. This was launched during the visit of German Minister for Economic and Development Cooperation, Ms. Heidemarie Wieczorek Zeul in October, 2008. The mutually agreed sectoral priorities of the programme are Energy; Environmental Policy, Protection and Sustainable Use of Natural Resources; Sustainable Economic Development.

9.8.2 For the year 2008, Germany has made the total commitments of Rs.2366 crore (approx.) (including reprogrammed fund) for the following projects:

S. No.	Project	Assistance (In Rs. crore approx)
1	NTPC Anta	715.00
2	MSME Energy Efficiency Programme with SIDBI	328.25
3	Promotion of Energy Efficient Buildings	334.75
4	IGEN, Phase-II	58.50
5	SIDBI Microfinance Programme	555.75
6	Orissa Urban Development Fund	328.25
7	NABARD – 'Development of Programmatic Public-Private Partnership'	32.50
8	Study and Expert Fund (SEF)	13.00
	TOTAL	**2366.00**

9.8.3 The following agreements were signed under Indo-German Bilateral Development Cooperation Programme during the year 2008-09 (upto 31.12.2008):

(a) Government to Government Umbrella Agreement:

S. No.	Project	Assistance (In Rs. crore approx)
1	Indo-German Umbrella Agreement-2007 (FC)	1857.05
2	Indo-German Umbrella Agreement-2007 (TC)	110.50

(b) Loan / Financing /Amending Agreements:

S. No.	Project	Assistance (In Rs. crore approx)
1	Participatory Natural Resource Management Programme, Tripura	78.00
2	Sustainable Municipal Infrastructure Financing in Tamil Nadu	422.50
3	Sustainable Municipal Infrastructure Financing in Tamil Nadu	78.00
4	Watershed Development Programme,Andhra Pradesh	13.00
5	SIDBI – III Environmental Credit Line (Tranche-II)	49.85
6	Pulse Polio Immunization Programme-X	201.50
7	Pulse Polio Immunization Programme-XI	91.59
8	Sustainable Energy Programme – IREDA	325.00
9	Sustainable Energy Programme – IREDA	6.50
10	PARE Hydroelectric Plant	520.00
11	PARE Hydroelectric Plant	3.25
12	Power Sector Reform, Programme-I – Supercritical Power Station, Andhra Pradesh	1,826.87

9.8.4 The total disbursement on the Government-to-Government projects through CAA&A (excluding technical assistance) during 2008-09 (upto December, 2008) was Rs.328 crore (approx).

9.9 High Level Bilateral Dialogues

9.9.1 Japan

The second India-Japan High Level Policy Consultations on Economic Development was held on 18.6.2008 in Tokyo under the co-Chairmanship of Joint Secretary (BC), Department of Economic Affairs and Director General, International Cooperation Bureau, Ministry of Foreign Affairs of Japan. Discussions were held on the agreed agenda items such as India's Economic and Development Plan, Development Assistance Policy of India, Dedicated Freight Corridor Project, Delhi Mumbai Industrial Corridor Project and Environmental issues including Climate Change.

9.9.2 2nd India Japan Strategic Dialogue on Economic Issues

A delegation was led by the Finance Secretary to Tokyo for holding second India – Japan Strategic Dialogue on Economic Issues with the Deputy Minister for Foreign Affairs of Japan. Discussions were held on the agreed agenda items such as Dedicated Freight corridor Project, Delhi Mumbai Industrial Corridor Project, setting up of the second Business Support Centre in India in Mumbai, Business Leaders' Forum, Japan Depository Receipt, Cooperation in Science and Technology, information and Communication Technology, Cooperation in Urban Development, Status of Economic Partnership Agreement with Japan, Setting up of a new IIT, IIITDM-Jabalpur, Environment/Climate Change and Currency Swap Agreement between India and Japan.

9.9.3 2nd India Investment Seminar held in Nagoya, Japan

2nd India Investment Seminar was held in the city of Nagoya, Japan on July 22, 2008 focusing on auto-parts industry. The seminar was jointly organized by the Government of India, Japan Bank for International Cooperation (JBIC) and the Nagoya Chamber of Commerce & Industry based on the Cooperation Agreement signed between Government of India and Japan Bank for International Cooperation on 8th December 2006 for facilitating Japanese FDI into India. The Seminar was attended by the Joint Secretary (BC), Department of Economic Affairs.

9.10 Australia

9.10.1 On the request of Australian Treasury Department, an India-Australia Economic Policy Dialogue was initiated. The first dialogue was held on April 3,2008 at North Block, New Delhi. Opening Remarks for the meeting were delivered by AS(EA) and the Indian delegation was led by JS(BC). The dialogue covered the following topics: Global and Regional Economic outlook, Financial Sector reform, Goods and Services Tax, and FDI.

9.10.2 The 2nd round of the Dialogue is scheduled to be held on February 10, 2009 in Australia.

9.11 U.S.A.

Department of Economic Affairs is the nodal agency for the Indo-US Financial & Economic Forum, which is being pursued under the overall Indo-U.S. Economic Dialogue, being coordinated by Prime Minister's Office. Under this regular interaction with the US Government takes place. The last (3rd) Cabinet level meeting of the Forum was held at New Delhi on 9th November 2005, which was co-chaired by the Finance Minister and U.S. Treasury Secretary. The meeting was followed by a Sub-Cabinet level meeting held at Washington DC, USA on 23rd August 2006. The Cabinet Level meeting was also held in New Delhi on 30th & 31st October, 2007. Subsequently a technical dialogue was held in June 2008 at New York with Indian delegation led by Joint Secretary (Capital Market) and Joint Secretary (Banking) wherein it was decided that the US and Indian members of the FEF Regulatory Dialogue would soon provide a written report to the US and Indian Finance Ministers summarizing the concrete achievements made since this meeting. The next Economic Dialogue meeting scheduled to be held on 14 Oct 2008 in New York, could not take place. The next date for the same would be identified mutually.

9.12 European Commission

9.12.1 Under the aegis of Indo-EC Development Cooperation programme, the second India-EU Macroeconomic Dialogue was held in Brussels on 6/6/2008. The dialogue was led by the Finance Secretary, Dr. D. Subbarao. Further, annual meeting of India-EC Sub-commission on Development Cooperation was held in New Delhi on 01.04.2008. The meeting was led by JS(BC).

9.12.2 Additional Secretary, DEA, represented the Finance Minister in the G8 Development Ministers' meeting held in Tokyo, Japan during 5-6 April, 2008.

9.13 U.K.

The second round of Ministerial level EFD was held in London on 11.8.2008. The major topics discussed were global economic situation, financial sector, climate change, PPP in infrastructure, etc.

9.14 Norway

As an outcome of the visit of our Finance Minister to Norway during October 2007, Norges Bank, the Central Bank of Norway,, under their amended guidelines agreed to make higher investments in India and announced an investment to the tune of US$ 2 billion by December 2008.

9.15 Important International Economic Forum

9.15.1 ASEM Meeting of Finance Ministers

Joint Secretary (BC) and Director (Europe) participated in the ASEM Finance Ministers' meeting held in Jeju Islands, Republic of Korea from 14-17 June, 2008. Prior to this JS(BC) also attended the ASEM Technical Working Group meeting held on 14/03/2008 at the same venue. The main outcome of the ASEM meeting were Agreements Of European & Asian Finance Ministers On Infrastructure Financing and Economics Of Climate Change.

9.15.2 Netherland

Finance Minister inaugurated Netherland-India Business Meet in Hague.

9.16 High Level Forum-III on Aid Effectiveness and UN Conference on Financing for Development

9.16.1 In the year 2008, the Government of India participated in two major international events, namely, the third High Level Forum (HLF) on Aid Effectiveness held at Accra Ghana, in September 2008 and then Conference on Financing for Development (FfD) held at Doha, Qatar, in November, 2008. The Indian delegation at HLF, Ghana was comprised of senior officers from Department of Economic Affairs and Ministry of External Affairs. The Indian delegation at Doha for FfD was led of Honourable Minister of State, External Affairs.

19.16.2 Considering the importance of effective aid in achieving the Millennium Development Goals (MDGs), India has endorsed the Paris Declaration, and Accra HLF provided an important occasion to see how far donor and partner countries are making progress on aid effectiveness agenda. India conveyed the view that the South-South cooperation by nature different as it emanates from the bilateral partnerships of India with its partners, is recipient-driven, democratic and decentralised and hence in no way comparable with the typical development aid of traditional donor.

10. Integrated Finance Division

10.1 The Integrated Finance Division is headed by the Joint Secretary & Finance Advisor of the Ministry of Finance. The Division services the Department of Economic Affairs as also the Department of Financial Services.

10.2 The Division is responsible for the following functions:

i) Tendering financial advice/examination for concurrence to proposals involving expenditure in respect of DEA and DFS as well as their attached and subordinate offices e.g. Investment Commission/13th Finance Commission/National Savings Institute/Debt Recovery Tribunals/Office of Custodian/ Appellate Authority for Industrial and Financial Reconstruction/Board for Industrial and Financial Reconstruction etc.

ii) Exercising expenditure control and management ensuring rationalisation of expenditure and compliance of economy measures in accordance with the instructions of the Department of Expenditure including regular monitoring of expenditure through monthly/quarterly reviews and submission of reports to the concerned Secretaries.

iii) The Division also administers three Detailed Demands for Grants i.e. Grant No 31-Department of Economic Affairs; Grant No 32- Payment to Financial Intuitions; and Grant No 33 –Department of Financial Services. This involves finalising the Budget/ the Revised Budget/estimating final requirements/surrender of saving and re-appropriations.

iv) Coordination of and the printing of the Detailed Demand for Grant for the entire Ministry of Finance.

v) Coordination of all matters relating to the examination of the DDG of the year by the Parliamentary Standing Committee on Finance.

vi) Preparation of the 'Outcome Budget' of the Ministry of Finance, as also monitoring Outcome Budget targets of different units in the Departments of Economic Affairs and Financial Services.

vii) Monitoring replies to the PAC /C&AG Audit Paras.

viii) Budgetary position regarding the Grants is given below:

Budgetary allocation of the Grants

(Rs. in crore)

Grant		BE 2008-09	RE 2008-09	% of Exp. Up-to Dec., 08 w.r.t. RE
31-D/Economic Affairs	Plan	1639.90	1609.47	72.38
	Non Plan	3084.06	4672.26	46.30
	Total	**4723.96**	**6281.73**	**52.98**
32-Payments of Financial	Plan	1900.00	1900.00	...
Institutions	Non Plan	8172.87	57637.49	50.71
	Total	**10072.87**	**59537.49**	**49.09**
33-D/Financial Services	Plan	0.00	0.00	...
	Non Plan	60.00	77.40	60.62
	Total	**60.00**	**77.40**	**60.62**

10.3 Best practices followed for effective expenditure control include:

(a) Expenditure progress review prepared monthly with HOD/Scheme wise details and submitted to concerned Secretaries.

(b) The Major Head wise and Scheme wise expenditure progress as compared to BE figures, posted on the web-site of the Ministry of Finance.

(c) Strengthening of internal control mechanism by getting internal audits undertaken.

10.4 **Achievements**

10.4.1 The financial progress in respect of Schemes included in the 'Outcome Budget'2008-09 are given below:

(Rs. in crore)

Sl. No.	Name of the Scheme	BE 2008-09	RE 2008-09	Exp. upto Dec, 2008	% w.r.t. RE 08-09
1	MH-3054 – Contribution for Railway Safety Works against additional levels on Motor Spirit and High Speed Diesel (Plan scheme)	**773.90**	**773.90**	**580.41**	**75%**
2	MH-5475- Assistance for infrastructure Development Public Private Partnership (PPP) in infrastructure (Plan scheme)	**92.10**	**61.67**	**4.04**	**6.5%**
3	MH-3475 Interest equalization support to Exim Bank of India (Non-Plan scheme)	**232.00**	**210.00**	**83.12**	**39.58%**
4	MH-3605 – Technical and Economic Cooperation with other countries, Development Assistance Grants-in-Aid (Non-Plan)	**5.00**	**1.00**	**Nil**	**0%**
5	MH-3605 – Technical and Economic Cooperation with other countries, 07: Technical and South East Asia under the Colombo Plan; 07.01.32 and 07.02.32: Contribution (Non-Plan)	**5.96**	**6.12**	**3.27**	**54.86%**
6	MH-7605 – Advances to Foreign Govt.: Loan to Govt. of Cambodia (Non-Plan)	**4.00**	**4.30**	**4.00**	**93.02%**

10.4.2 The mandatory 5% to 10 % cut imposed by the Department of Expenditure on Non-plan expenditure relating to OTA, Domestic and foreign travel, office expenses etc. as part of overall austerity measures undertaken by the Government were strictly enforced resulting in savings of approx. Rs.2.76 crore under these heads in the Department.

Chapter II

Department of Expenditure

1. Functions and Organisational structure

1.1 The Department of Expenditure is the nodal Department for overseeing the public financial management system in the Central Government and matters connected with State finances. The principal activities of the Department include pre-sanction appraisal of major schemes/projects (both Plan and non-Plan expenditure), handling the bulk of the Central budgetary resources transferred to States, implementation of the recommendations of the Finance and Central Pay Commissions, overseeing the expenditure management in the Central Ministries/Departments through the interface with the Financial Advisors and the administration of the Financial Rules/Regulations/Orders and through monitoring of Audit comments/observations, preparation of Central Government Accounts, managing the financial aspects of personnel management in the Central Government, assisting Central Ministries/Departments in controlling the costs and prices of public services, assisting organizational re-engineering through review of staffing patterns and O&M studies and reviewing systems and procedures to optimize outputs and outcomes of public expenditure. The Department is also managing coordination of matters concerning the Ministry of Finance including Parliament-related work of the Ministry. The Department has under its administrative control the National Institute of Financial Management (NIFM), Faridabad.

1.2 The business allocated to the Department of Expenditure is carried out through its Establishment Division, Plan Finance-I and II Divisions, Finance Commission Division, Staff Inspection Unit, Cost Accounts Branch, Controller General of Accounts and the Central Pension Accounting Office.

2. Establishment Division

2.1 The Establishment Division works under the Joint Secretary (Personnel) and deals with matters like Sixth Central Pay Commission, determination of salary structure and service conditions of all Central Government employees, wage policy determination, revision of pay scales, creation of posts, basic principles of fixation of pay, House Rent Allowance, Travelling/Daily Allowance, Dearness Allowance and various other compensatory allowances in respect of Central Government employees, General Financial Rules, Delegation of Financial Power Rules, Economy Instructions etc. It is also responsible for administrative matters concerning the Department of Expenditure.

2.2 Implementation of the Report of the Sixth Central Pay Commission

The Sixth Central Pay Commission was set up by the Government of India vide Resolution No. 5/2/2006-E.III(A) dated 5th October, 2006 as amended by Resolution No. 5/2/2006-E.III(A) dated 7th December, 2006(to include Members of Regulatory Bodies (excluding RBI) set up under Acts of Parliament and Resolution No. 5/2/2006-E.III(A) dated 8th August, 2007 (to include the officers and employees of the Supreme Court). On the 24th March, 2008, the Commission submitted its Report relating to structure of emoluments, allowances, conditions of service and retirement benefits of Central Government employees including those belonging to Union Territories, Members of All India Services, personnel belonging to the Defence Forces, officers and employees of the Indian Audit and Accounts Department (IA&AD) and Chairpersons/Members of Regulatory Bodies (except Reserve Bank of India). The government, after giving careful consideration to the recommendations of the Commission, approved the recommendations of the Commission with certain modifications. The orders on pay structure and allowances based on the governments' approval of the recommendations of the Sixth Central Pay Commission have been issued.

3. Plan Finance-I

3.1 State Finances Division

The State Finances Division of Department of Expenditure looks after all matters relating to finances of the State Governments including Plan releases in the State Sector, Non Plan releases on the recommendation of the Finance Commissions and assessment of borrowing requirements of State Governments including fixing of borrowing ceiling, issue of permission for borrowings under Article 293(3),monitoring of ways and Means position in close co-ordination with the RBI, debt write offs as recommended by the 12th Finance Commission etc.

3.2 This Division operates Demand No.35 of the Ministry of Finance from which funds are released to the States for both Plan and Non Plan purposes. Releases for schemes on the Plan side are made on the recommendation of the Planning Commission/nodal Ministry concerned. The important flagship schemes for which funds were released under the Plan head in 2008-09 include Accelerated Irrigation Benefit Programme (AIBP), Accelerated Power Development and Reform Programme (APDRP), Jawaharlal Nehru National Urban Renewal Mission (JNNURM), Externally Aided Projects, National Social Assistance Programme (NSAP), Backward Area District Fund, Tsunami Rehabilitation Programme, Brihan Mumbai Storm Water Drainage (BRIMSTOWAD) and the Commonwealth Youth Games etc. As against a BE plus supplementary of Rs.58510.21 crore for Plan Schemes in the year 2008-09, Rs.39328.20 crore has been released as on 16.1.09 (67.22%).

3.3 On the Non-Plan side, this Division released Rs.21740.80 crore as on January 9, 2009 as Grants-in-aid for Upgradation/ Maintenance of services, Calamity Relief etc. (being 75.09% of the allocation for the year 2008-09 of Rs.28954.72 crore) as per 12th Finance Commission Recommendation. Further as per Debt Consolidation and Relief Facility (DCRF) formulated as per recommendations of 12th FC, debt consolidation has provided interest relief to 25 FRBM States to the extent of Rs.3398 crore in 2008-09 as against TFC's estimation of Rs.3445.42 crore, further a debt waiver of Rs.5536.59 crore is estimated to be provided to 23 States in 2008-09.

3.4 In contrast with sharp liquidity pressures faced by State governments in the years prior to 2004-05, the Ways and Means position of the State Governments of a large number of States has been showing large surpluses in 2008 invested in 14 days Treasury and Auction T bills.

3.5 Additionally, the State Finances Division is working closely with the State Governments and the CAG for achieving Treasury Computerization.

4. Plan Finance-II Division

4.1 Plan Finance – II Division is primarily concerned with matters relating to the Central Plan. PF.II Division serves as a window within the Finance Ministry, which has an over view of the entire canvas of development activity of the Central Government, both at the project level and sectoral policy level. In respect of development schemes and projects, the focus has been on improving the quality of development expenditure through better project formulation, emphasis on outputs, deliverables, impact assessment, projectisation (Mission approach) and convergence.

4.2. With the commencement of the Eleventh Plan period, Revised Guidelines for Formulation, Appraisal and Approval of Government funded Plan Schemes/Projects have been issued vide O.M. No.1(3)/PF.II/ 2001, dated 15th November, 2007 which has been issued afresh so as to rationalize the Schemes of delegation further, align it more closely with the rapidly changing economic environment, empower Ministries/Departments further for undertaking Investment programmes and make the entire procedure more responsive and resilient in ensuring timely and well informed decision making. These guidelines which will be applicable over the duration of 11th Plan period are available at this Ministry's website (www.finmin.nic.in).

4.3 During the period from 1st January to 31st December, 2008, **102 meetings** of the Expenditure Finance Committee (EFC) chaired by Secretary (Expenditure) considered Plan Investment Proposals / Schemes of various Ministries / Departments costing **Rs.2,31,237.60 crore**. Also, **16 meetings** of Public Investment Board (PIB) were held and projects with a capital outlay of **Rs.53,824.21 crore** were recommended for approval of competent authority.

4.4 Plan Finance-II Division also deals with financial restructuring of Central PSUs on the recommendations of Bureau for Restructuring of Public Sector Enterprises (BRPSE). Plan Finance – II Division also deals with issues relating to Food, Fertilizers and Petroleum subsidies.

5. Finance Commission Division

5.1 Activities of the Department, achievements etc. during the calendar year 2008.

5.1.1 Finance Commission Division, Department of Expenditure is mandated to implement recommendations of Finance Commissions. At present recommendations of the 12th Finance Commission (TFC), applicable from April 2005 to March 2010, are being implemented. Recommendations of TFC broadly include share of states in Central taxes, Debt Relief to States and non-plan revenue grants- in –aid to States, viz. Non-Plan Revenue Deficit Grants and under the specific sectors such as , education, Health, Roads & Bridges, Public Buildings, Forest, Heritage Conservation, Specific needs of the States and Local Bodies (both Urban and Rural Local Bodies). Division fixes annual borrowing ceilings of States and gives debt- sustainability clearances to State Government proposals for Externally Aided Projects and Structural Adjustment Loans.

5.1.2 Devolution of Shares in Central Taxes and Duties

For the period of five years commencing from 1.4.2005, the Twelth Finance Commission recommended the share of States in net proceeds of shareable Central taxes shall be 30.5%. During the year 2008, Rs.175211.46 crore were transferred to States.

5.1.3 Grants in aid to States cover deficit on revenue account

The TFC has recommended grants in aid amounting to Rs.56856 crore to 15 States during the award period 2005-2010. During 2008, Rs.10226 crore were released to States as Grant-in-aid.

5.1.4 Grants in aid to States to Education Sector

The TFC has recommended grants in aid amounting to Rs. 10172 crore to 8 States during the award period 2005-2010. During 2008, Rs. 1928.91 crore were released to States as Grant-in-aid.

5.1.5 Grants in aid to States to Health Sector

The TFC has recommended grants in aid amounting to Rs.5887.08 crore to 7 States during the award period 2005-2010. During 2008, Rs.774.645 crore were released to States as Grant-in-aid.

5.1.6 Grants in aid to States for maintenance of Forests

The TFC has recommended grants in aid amounting to Rs.1,000 crore to 28 States during the award period 2005-2010. During 2008, Rs.180.90 crore were released to States as Grant-in-aid.

5.1.7 Grants in aid to States for Roads and Bridges

The TFC has recommended grants in aid amounting to Rs.15,000 crore to 28 States during the award period 2005-2010 . During 2008, Rs.3264.07 crore were released to States as Grant-in-aid.

5.1.8 Grants in aid to States for Public Building

The TFC has recommended grants in aid amounting to Rs.5,000 crore to 28 States during the award period 2005-2010. During 2008, Rs.853.39 crore were released to States as Grant-in-aid.

5.1.9 Grants in aid to States for Heritage Conservation

The TFC has recommended grants in aid amounting to Rs.625 crore to 28 States during the award period 2005-2010 . During 2008, Rs.96.98 crore were released to States as Grant-in-aid.

5.1.10 Grants in aid to States for States Specific Needs

The TFC has recommended grants in aid amounting to Rs.7100 crore to 28 States during the award period 2005-2010. During 2008 , Rs.1069.42 crore were released to States as Grant-in-aid.

5.1.11 Grants in aid to States for Local Bodies

The TFC has recommended grants in aid amounting to Rs.25,000 crore to 28 States during the award period 2005-2010. During 2008, Rs.4451.83 crore were released to States as Grant-in-aid.

5.1.12 Grants in aid to States for Calamity Relief

The TFC has recommended grants in aid amounting to Rs.16,000 crore to 28 States during the award period 2005-2010. During 2008, Rs.3266.90 crore were released to States as Grant-in-aid as centre's share.

5.1.13 Debt Relief to States

In March 2008 debt of 18 States was waived to the extent of Rs.4609.55 crore for 2007-08. In May 2008 debt of 23 States were deferred to the extent of Rs.5,536.59 crore for 2008-09.

6. Integrated Finance Unit

6.1. The Integrated Finance Unit works under Joint Secretary & Financial Adviser (Finance) and deals with the expenditure and Budget related proposals under Grant No.38 - Department of Expenditure which includes (i) Secretariat General Services covering the establishment budget for the Department of Expenditure, Controller General of Accounts Central Pension Accounting Office, Finance Commission Division, Staff Inspection Unit, Cost Accounts Branch and Chief Controller of Accounts and (ii) Other Administrative Services covering the budget for Institute of Government Accounts and Finance, National Institute for Financial Management and Contribution to International Body and the budget relating to payment of services charges to the Central Record keeping Agency (CRA) for the New Pension Scheme.

6.2 This unit also monitors the expenditure under Grant No. 39 – Pension, Grant No. 40 – Indian Audit & Accounts Department and Grant No. 44 – Department of Disinvestment.

6.3 The allocations under the respective Grants are as under:-

(Rs. in crore)

	Budget Estimates 2008-09			Revised Estimates 2008-09		
Grant No.	**Plan**	**Non-Plan**	**Total**	**Plan**	**Non-Plan**	**Total**
38- Deptt. of Expenditure	10.00	37.86	47.86	5.30	56.66	61.96
39- Pensions	-	7966.14	7966.14	-	10629.53	10629.53
40- Indian Audit & Accounts Deptt.	-	1207.00	1207.00	-	1794.00	1794.00
44- Deptt. of Disinvestment	-	2351.00	2351.00	-	2348.90	2348.90

6.4 A Plan scheme is administered under Grant No. 38 – DoE regarding infrastructure building in NIFM and sponsoring the training in Financial Management to officers from special category States. 43 candidates joined the course starting on 1.1.2008 at NIFM.

6.5 The expenditure trend of the Department has consistently been monitored and strict control has been exercised over the Govt. expenditure. A special drive was launched during the year for setting Audit Paras and a one day workshop was conducted by the office of Controller General of Accounts (CGA) for this purpose.

7. Staff Inspection Unit

7.1 During the year 2008, SIU has issued 16 final reports covering the sanctioned strength of 2924 posts including 2 Norm Studies of Immigration Check Posts and Foreign Regional Registration Offices, Ministry of Home Affairs and Institutes of Hotel Management, Catering Technology and Applied Nutrition, Ministry of Tourism and Culture. Out of the sanctioned strength of 2924 posts, SIU has found justification for retention of 1973 posts by declaring 951 posts as surplus. The staffing studies during the year have resulted in an economy of Rs. 22.33 crores per annum. In addition, provisional reports on 6 staffing studies with a total coverage of 1333 posts were also issued during the year.

7.2 During the year, SIU has associated as Core Member with 2 Committees constituted for assessing the manpower requirement of Scientific and Technical Organizations namely Directorate General of Mines, Dhanbad, Ministry of Labour and Employment and Patent Offices & the Offices of Patent Information Systems (Norms) of the Office of the Controller General Patents, Designs and Trade Marks, Ministry of Commerce and Industry.

8. Chief Adviser Cost Office

8.1 Chief Adviser Cost (CAC) is responsible for advising the Ministries and Government Undertakings on cost accounts matters and to undertake cost investigation work on their behalf. Office of Chief Adviser Cost is one of the divisions functioning in the Department of Expenditure. It is a professional agency staffed by Cost/Chartered Accountants.

8.2 Some of the major studies undertaken during the year 2008 are given below:

a) Study of under recovery of PSUs on Petroleum products for the years 2007-08.

b) To determine the amount to be paid to Dredging Corporation of India by Sethusamudram Corporation Ltd. for Sethusamundram Ship Channel Project.

c) Analysis of the cost of supply of 'Interceptor Boats' under Single Tender system

d) Analysis of cost of Fast Attack Craft (CB-90H).

e) Fair prices of Tear Smoke Munitions produced by Tear Smoke Unit (TSU) of Border Security Force, Tekanpur, Gwalior for the year 2007-08.

f) Reports in respect of Concurrent Audit of Escalation claims/ Equated Freight Rates of various Urea Fertilizer companies for the year 2006-07.

g) Price support Scheme (PSS) / Market Intervention scheme (MIS) – Vetting of Accounts for determination of gain/loss on the scheme.

h) Fixation of price for the insecticides supplied under National Vector Borne Diseases Control Programme (NVDCP).

9. Controller General of Accounts (CGA)

9.1 The CGA is the apex Accounting Authority of the Central Government and exercises the powers of the President under Article 150 of the Constitution for prescribing the form of Accounts of the Union and State Governments on the advice of the Comptroller & Auditor General of India. The CGA is responsible, inter-alia, (a) for the preparation and consolidation of the Union Government Monthly Accounts (b) presentation to Parliament of the Annual Appropriation Accounts (Civil) and Finance Accounts of the Union Government. These accounts were laid before Parliament (c) ensuring a sound and effective internal audit and pre-check system in the Civil Ministries (d) enabling monitoring of expenditure in Civil Ministries through prompt and accurate accounting (e) ensuring effective and close monitoring of Receipts of the Government of India especially those relating to Income Tax, Customs and Central Excise (f) enabling the effective utilization of accounts as a tool of management by constant upgradation of the quality of accounts leading to improved financial control within Government.

9.2 The CGA also presents a detailed analytical Review of the Union government Accounts every month to the Finance Minister. The review covers major aspects of receipts, expenditure, fiscal deficit, sources of financing, etc. to assist in informed decision making at the highest level. The CGA also brings out every year, a booklet entitled "Accounts at a Glance", bringing out broad and significant features of Government Receipts and Expenditure..

9.3 The Central Plan Schemes Monitoring System (CPSMS) is a planned scheme being implemented by the Controller General of Accounts (CGA). A central monitoring and accounting system for the 1258 centrally sponsored schemes and central sector schemes has been instituted. The quality of Internal Audit is being improved through introduction of modern concepts like Risk Based Auditing and Performance Auditing. The Information Technology initiatives like COMPACT and e-lekha are being further strengthened.

10. Chief Controller of Accounts, Ministry of Finance

The Chief Controller of Accounts (CCA) is in overall charge of the accounting organization of the Ministry, supported by three Controllers of Accounts, two Deputy Controllers of Accounts, 36 Senior Accounts Officers/ Pay and Accounts officers and approximately 300 other staff members at various levels. The important function of the O/o CCA are outlined as follows.

- Centre to State Funds transfer Monitoring through a computerized system
- Monitoring of Internal Debt
- Payment of pension to pensioners of certain other countries settled in India
- Release and monitoring of repayment of loans to Financial Institutions
- Account of loans to foreign governments
- Preparation of consolidated account of total receipts and payments of all the Ministries/Departments for CGEGIS and calculation of interest of the Savings Fund and the Insurance Fund
- Release and watch of repayment of loans to Banks and Financial Institutions.
- Accounting of Loans to foreign Governments.
- Preparation of Coinage Account.
- Calculation of average rate of interest on Capital Outlay in Commercial Departments of Central Government.
- Preparation of Consolidated Account of total receipts and payments of all the Ministries / Departments for Central Government Employees Group Insurance Scheme and calculation of interest on Savings Fund and Insurance Fund.
- Making payments of all the Debt Recovery Tribunals, Debt Recovery Appellate Tribunal, Board of Industrial and Financial Reconstruction, Appellate Authority for Industrial and Financial Reconstruction, Finance commission etc.
- Management of Guarantee Fee.

11. Central Pension Accounting Office

11.1 Central Pension Accounting Office (CPAO) is responsible for disbursement and accounting of pension payments to Government employees of all Civil Ministries as well as former Presidents / Vice-Presidents, retired Supreme Court / High Court Judges, Members of Parliament and Freedom Fighters. From 2008-09 the Government of India has taken over the function of disbursement of pension to All India Service (AIS) Officers also.

11.2 Central Pension Accounting Office is also the central budgeting and accounting unit for civil pensions. It functions as a single point interface between the Government, banks and pensioners. With the introduction of modern technology, CPAO is able to serve over 7,00,000 pensioners spread all over the country through the network of over 39,000 bank branches specifically authorized for pension disbursement. The present effort is directed towards a seamless integration of the functions of sanction by departments, authorization to banks, payment to the bank accounts of pensioners and accounting of reimbursement claimed by banks as well as redressal of grievances by harnessing information technology and developments in the banking environment.

12. e-Governance Measures

12.1 The Central Pension Accounting Office (CPAO) is a computerized office providing a single point interface between Ministries, Banks and Pensioners. The system has also been designed to ensure accuracy, efficiency and transparency in work processes as well as to provide the grievance redressal system for pensioners. Many activities in CPAO have been e-enabled such a monitoring, tracking and processing of the pension cases. Queries on the status of PPOs are enabled on CPAO's website: http://cpao.nic.in.

12.2 A pilot project on generation of e-PPO through COMPACT is being tested for extension to all Ministries. In order to handle revision authorities smoothly, e-authorities are being built into COMPACT in field PAOs in the interim. With a view to ensuring timely credit of pension payment to pensioners and arrears of pension / dearness relief etc. and redressing grievances of pensioners, it has also been decided to establish a Centralized Pension Processing Centre (CPPC) in each bank. This CPPC will act as a single window for all Central Civil Government Pensions. The servicing of specific needs of pensioners is envisaged to continue at his pension paying branch. The banks have also been required to prepare e-scrolls. After matching the CPAO database with that in the banks, the manual scrolls will be completely replaced. The grievance redressal mechanism will also have a bridge with banks.

13. Pay Research Unit (PRU)

13.1 This unit brings out an annual publication entitled **"Brochure on Pay and Allowances of Central Government Civilian Employees"**. The Brochure provides statistical information regarding expenditure incurred by the different Ministries/Departments of the Central Government on pay & various types of allowances such as Dearness Allowance, House Rent Allowance, Compensatory (City) Allowance, Overtime Allowance etc. in respect of its regular employees. It also provides information on Ministries/Departments-wise and Group-wise number of sanctioned posts and numbers of incumbents in position.

13.2 The Unit brought out the 29th issue of the series of Brochure for the year 2006-2007 in November 2008. The work regarding the Brochure for the year 2007-2008 is in progress.

14. Use of Hindi as Official Language

14.1 In the Department 98% Officers/employees have the working knowledge/proficiency in Hindi. About 30% to 76% of Official work is done in Hindi by most of the Officers/employees. Typists/Stenographers not knowing Hindi typing/stenography are regularly nominated for the training of Hindi Typing and Stenography and employees who don't possess working knowledge of Hindi are also imparted training in various Hindi courses viz. Prabodh/Praveen/Pragya. Hindi Workshops are organized from time to time in this Department and the employees getting first three positions are given the Cash Awards of Rs.1200/-, Rs.1000/- and Rs. 800/- respectively and one consolation prize of Rs.500/- is also given.

14.2 Meeting of Joint Hindi Advisory Committee comprising of Departments of Revenue and Expenditure, O/o Comptroller and Auditor General of India and D/o Disinvestment was held on 30 July, 2008 at New Delhi. Addl. Secretary, Joint Secretary (Pers) and other Officers represented D/o Expenditure in the said meeting. Hindi version of five Manuals of D/o Expenditure were released in this meeting by the Hon'ble MOS.

14.3 Hindi Month was organized in the Deptt. from 14 September, 2008 to 14 October, 2008 in which 13 various competitions were organised as against 11 organised last year. Many officers and employees took part in these competitions enthusiastically. These include Hindi Essay writing, Noting-Drafting, Hindi Poetry, Hindi Extempore, Dictation, Hindi Slogan writing etc and apart from this General Hindi Comprehension competition was organized specifically for Non-Hindi speaking employees. Besides, Hindi quiz and conferences organized on topics relating to official language also attracted special attention of many employees. All the winners of first, second and third positions in these competitions were awarded cash prizes of Rs.5000/-, Rs.3000/- & Rs. 2000/- respectively along with the certificates and two cash prizes of Rs.1000/- each as consolation. In addition to this, under Hindi Noting and Drafting cash prize scheme of Department of Official Language (MHA) 2 persons were awarded cash prize of Rs. 1000/- each on attaining first position and one of Rs. 600/- to another as second prize.

15. National Institute of Financial Management

15.1 National Institute of Financial Management has been set up with a view to establish itself as a premier knowledge-partner in the country for training, research and consultancy in the area of Finance, Accounts & Audit, Public Financial Management, HRD and IT. National Institute of Financial Management is a society registered under the Societies Registration Act 1860.

15.2 NIFM provides 44 weeks professional training to probationers of six Central Group ‘A’ Finance and Accounts Services. Since its inception in January 1994, NIFM has successfully trained fifteen batches of probationers of various Accounts, Audit, and Finance Services. Institute besides providing training to probationers conducts a two year full time residential Post Graduate Diploma in Business Management (Financial Management) for senior & middle level officers of Government & PSUs. The 7th batch of PGDBM(FM) is in progress. NIFM also conducts various short-term Management Development Programmes and also undertake consultancy work.

15.3 NIFM Budget estimates for the year 2008-09 was Rs.1271.00 lakh and RE for 2008-09 is Rs.1657.00 lakh. The BE for the year 2009-2010 is Rs.967.07 lakh (Capital + Revenue).

Chapter III

Department of Revenue

1. Functions

1.1 The Department of Revenue functions under the overall direction and control of the Secretary (Revenue). It exercises control in respect of matters relating to all the Direct and Indirect Union Taxes through two statutory Boards namely, the Central Board of Direct Taxes (CBDT) and the Central Board of Excise and Customs (CBEC). The Department looks after matters relating to all administration work pertaining to the Department, coordination between the two boards (CBEC and CBDT), the administration of the Indian Stamp Act 1899 (to the extent falling within the jurisdiction of the Union), the Central Sales Tax Act 1956, the Narcotic Drugs and Psychotropic Substances Act 1985 (NDPSA), the Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act 1976 (SAFEM (FOP) A), the Foreign Exchange Management Act 1999 (FEMA) and the Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974 (COFEPOSA).

1.2 A comparison of the collection of Direct and Indirect taxes during the financial year, 2008-09 (i.e. upto December, 2008) with that during the corresponding period of the previous year (i.e. upto December, 2007) is given in the table below:-

Sl. No.	Nature of Taxes	Amount Collected During the Financial year (Rs. in Crore)		
		2007-08 (upto Dec. 07)	**2008-09 (upto Dec. 08)**	**Percentage of growth over last year**
1.	Corporation Tax	1,28,194	1,46,737	14.46%
2.	Personal Income Tax	77,535	83,524	7.72%
3.	Other Direct Taxes	300	337	12.3%
4.	Central Excise Duty*	85,895	80,366	- 6.4%
5.	Customs Duty	75,134	82,943	10.4%
6.	Service Tax**	31,380	39,355	25.4%
	Total	3,98,438	4,33,262	8.74%

* Excise figures are exclusive of cess administered by other Departments.

** Service Tax Revenue upto the month of Nov. 2008

2. Central Board of Excise and Customs

2.1 The Central Board of Excise and Customs deals with the tasks of formulation of policy concerning levy and collection of Customs and Central Excise duties, Service Tax, prevention of smuggling and evasion of duties and all administrative matters relating to Customs, Central Excise, Service Tax and narcotics (to the extent falling under CBEC's purview) formations. The Board discharges the various tasks assigned to it, with the help of its field organizations.

2.2 Indirect Taxes collection

Customs and Central Excise duties are two major sources of the Central Government Tax Revenue.

2.3 Customs Duty

Revenue from customs duties during 2006-07 and 2007-08 based on departmental records is given below:-

(Rs. In Crores)

2006-07		2007-08 (Prov.)	
Budget Estimates	**Actual realisation**	**Budget Estimates**	**Actual realisation**
77066	86327	98770	104091

Budget estimate for 2008-09 is at Rs.118930 against which the collection (upto December, 2008) is Rs. 82943 Crore (Provisional).

2.4 Central Excise

Revenue from Union Excise Duties (excluding Cesses not administered by Department of Revenue) during 2006-07 and 2007-08, based on departmental records, is given below:-

(Rs. In Crores)

2006-07		2007-08 (Prov.)	
Budget Estimates	**Actual realisation**	**Budget Estimates**	**Actual realisation**
117967	116561	129043	123007

Budget estimate for 2008-09 (excluding cesses not administered by Department of Revenue) is placed at Rs.136610 against which the collection (up to December 2008) is placed at Rs. 80366 crore (Provisional) (excluding cesses not administered by Department of Revenue).

2.5 Service Tax

There is increase in rate of Service Tax from 10% to 12% in the year 2006-07 and it remains same in the years 2007-08 & 2008-09. The Budget Estimate for 2008-09 is Rs.64460 crore. The total number of services covered under Service Tax so far is 105.

2.6 E-Governance Activities in CBEC

2.6.1 Customs Process Automation

As against 23 automated Customs locations during 2003-04 with 87% of the import and export declarations filed and processed in EDI system, during 2007-08 the processing has increased to 95 % covering 40 major Customs locations. However, further EDI coverage of the remaining Customs locations will now be undertaken under the Consolidation Project. Presently this project is under execution and is being supervised by the Empowered Committee set up in the Ministry of Finance.

The figures indicated in the table below indicate that there has been a steep rise in filing customs documents through ICEGATE since its introduction in 2004 and also substantial reduction in filing of manual documents:

Year	Bills of Entry			Shipping Bills		
	EDI	Through ICEGATE	Manual	EDI	Through ICEGATE	Manual
2004-05	17,66,674	8,25,159	1,58,013	29,58,490	14,63,286	3,55,318
2005-06	20,64,382	9,04,841	1,09,180	33,84,867	17,09,585	2,49,547
2006-07	23,36,919	21,14,975	71,301	37,22,998	24,22,457	2,06,635
2007-08	27,04,158	23,73,062	90,680	40,81,719	30,21,756	2,33,440

The projects of CBEC have also helped in making the process of assessment of goods transparent due to the following features:-

(a) Document status information through use of Tele-enquiry system, Touch Screen Kiosks, SMS, display of Document status on TV monitors and on local web sites leading to greater transparency in the monitoring of shipments by trade.

(b) Transparency engendered through Document Tracking, Status Query and Help Desks at ICEGATE.

(c) Information dissemination through departmental Website: www.cbec.gov.in and www.icegate.gov.in.

Further, the following major initiatives have also been taken for upgradation of systems and moving towards e-mode:

2.6.2 Risk Management System

Introduction of Self Assessment based on Risk Management System (RMS) and Post Audit in Customs clearance to promote faster clearance of cargo, to facilitate low risk importers/exporters and to provide effective enforcement in high-risk cases. RMS (import module) has been implemented presently at 23 Customs locations. Presently, RMS is running in a distributed architecture. Changes are being made in the application for deploying it on central server. RMS for selection of containers for scanning, based on IGM data, has been implemented at Nhava Sheva.

2.6.3 **CBEC Automation Project**

The CBEC has embarked on a major automation initiative (Consolidation Project) which was approved by the CCEA in November 2007. Consequent to the approval of the CCEA, contracts have been executed with the vendors and implementation of the project is underway. The Data Center has been fully set up and the IT hardware for the Data Center has been installed and commissioned. The Networking Infrastructure (WAN/ LAN) is being set up and the sites are being offered for acceptance.

Software applications to cater to the customs, excise and service tax business processes are being upgraded/ developed to be hosted on the data center. The Central Excise and Service Tax application (ACES) has been rolled out on a pilot basis in December 2008 in LTU Bangalore and is proposed to be rolled out in other pilot locations by the end of March 2009 and in the rest of the country by June 2009. On the customs side, the upgraded version of the Indian Customs EDI System (ICES version 1.5) is under development and will be rolled out on a pilot basis in select customs locations soon. After successful development and testing more number of ports and airports will have the benefit of automated customs processes. Another important initiative is the Enterprise Data Warehouse project which is under development.

3. Central Board of Direct Taxes

3.1 The Central Board of Direct Taxes (CBDT), created by the Central Board of Revenue Act 1963, is the apex body entrusted with the responsibility of administering direct tax laws in India. The CBDT consists of a Chairman and six Members.

3.2 **Augmentation of Tax Collections**

Special drive is being undertaken for augmentation of revenue through various means some of which are as follows:-

(i) A list of around 1700 cases of e-filed returns having income above 10 lakhs filed during 1/04/07 to 31/ 10/2008 was generated in which there was claim of payment of self assessment tax to the tune Rs 1670 crore, which was actually not paid. Proceedings were initiated against all such assesses and majority of such taxes have been paid.

(ii) In the previous year TDS set up was strengthened which led to growth of TDS by more than 50% over previous year. In the current year also a number of TDS surveys and inspections have been carried out in which thousands of crores from TDS has been collected. Surveys have revealed that most of the deductors are either not deducting taxes or after deducting the taxes are not depositing it into government accounts or are depositing beyond prescribed time. Some of the defaulting deductors include the State Electricity Boards (which are now mostly operating as unbundled corporate entities), Prominent Airlines, Mobile Service Providers, and Hospital etc. Proceedings have been initiated against the defaulters.

(iii) Information regarding top deductors (RCC-wise) has been generated to give list of the following cases:-

(a) Deductors who have admitted to have paid TDS as per their returns in excess of 1 lakh but actually have not deposited the same to the Government.

(b) Deductors who have deposited over 1 lakh in 07-08 but have not paid anything in the current year.

(c) List containing late deposit of TDS and inactive TANs

(d) Top deductors for the current year and previous year.

(e) TDS payments of top deductors in the previous year and their corresponding payment in the current year.

The above information has been passed on to the authorities in the field formation for appropriate remedial action

3.3 **Measures to combat Tax Evasion**

The Government continuously strives to check tax evasion and the growth of unaccounted wealth by systematic survey operations, search and seizure operations and other enquiries. During the financial year 2008-09(i.e. Upto November 2008), a total number of 1979 Search Warrants were executed, with the value of assets seized amounting to Rs.302.08 crores as against 3364 Search Warrants with value of assets seized Rs.411.45 during the previous financial year.

3.4 Widening of the Tax Base

The total number of assessees during the financial year upto Aug 2008 and the previous financial year 2007-08 is 320.52 lakhs and 326.87 lakhs respectively.

3.5 Computerization in CBDT

With modern information technology as a key driver, the CBDT is implementing a comprehensive computerization programme in the Income Tax Department. The programme is aimed to establish a taxpayer friendly regime, increase the tax-base, improve supervision and generate more revenue for the Government.

(i) **e-filing**

The facility of electronic filing of returns has been extended to all the assessees and made compulsory for the corporate and assessees whose accounts are compulsorily required to be audited under sec 44AB of I.T. Act 1961. e-Filing for all I-T returns for AY 2008-09 commenced from 19/04/2008. As on Q3 of FY 2008-09, nearly 29 lakh e-returns have been received. Of the e-returns filed, nearly 2/3rds have been filed voluntarily by taxpayers indicating the broader acceptance of the convenience of e-filing.

The Electronic Filing of Income Tax Returns project of the Income Tax Department has been awarded the National E-Governance Silver Award in the category '*Outstanding Performance in Citizen Centric Service Delivery'*

(ii) **Centralized Processing Centre (CPC)**

Centralized Processing Centre (CPC) for enabling Centralized Processing of all Income tax returns at a single location is expected to be operational by the end of FY 2008-09.

(iii) **System Integrator project**

System Integrator project of CBDT to integrate the regional database contained in 36 Regional Computer Centers (RCCs) into a Single National Database (Primary Database Center-PDC) is expected to be operational by the end of FY 2008-09.

(iv) **E-Payment**

E-payment has been made mandatory for all Companies and all 44AB cases from 1st April 2008.

(v) **e- TDS**

The Base of tax deductors has increased from 9.3 lakhs in FY 2007-08 to 12 lakhs in FY 2008-09.

(vi) **OLTAS**

OLTAS (Online Tax Accounting System) is now fully operational and is being implemented in close coordination with RBI and the Agency Banks.

4. State Taxes Division

This Division is facilitating reforms in the indirect taxes sector for goods and services in coordination with the States. These cover an extended ambit, encompassing the switch over from erstwhile State Sales Tax to Value Added Tax, phasing out of Central Sales Tax and AED on goods of special importance and eventual evolution of a road-map for a national level Goods and Services Tax. The highlights of the work done in these areas are as follows:

4.1 Indian Stamp Act, 1899

The Indian Stamp Act, 1899 lays down the law relating to tax levied in the form of stamps on instruments recording transactions. As part of the reforms process, the rates of Stamp Duty in respect of two central instruments viz.Debentures and Promissory Notes have been rationalized by issuing the necessary notifying Orders for the new rates.

4.2 Implementation of Value Added Tax (VAT)

Introduction of State VAT by all the States/UTs to replace their earlier Sales Tax systems is the most significant indirect tax reform at State level. VAT was introduced w.e.f. 01.04.2005 as a follow-up of the broad consensus arrived at amongst the States at the Empowered Committee of State Finance Ministers (EC). The Central Government played the role of a facilitator for successful implementation of VAT by providing support through circulation of a Model VAT Act draft and payment of compensation to the States for any revenue loss on account of introduction of VAT.

4.3 Central Sales Tax (CST)

To continue the indirect tax reform process, consensus was reached after intensive consultation with the States on the roadmap for phasing out the CST presently levied under the Central Sales Tax Act, 1856. Accordingly, CST rate has been reduced from 4% to 3% w.e.f. 01.04.2007 and further from 3% to 2% w.e.f. 01.06.2008.

4.4 Additional Excise Duty (AED) on goods of special importance

The Additional Excise Duty (Goods of Special Importance) Act, 1957, provides for levy of AED in lieu of Sales Tax, as part of tax rental arrangement with the States. As part of the indirect tax reforms, it was agreed with the EC to abolish the AED in a phased manner. Accordingly, AED on tobacco and tobacco products has been abolished w.e.f. 01.04.2007 to bring these under the purview of State VAT without affecting their share of 1% from the divisible pool of Central taxes. Discussions are on with the EC for bringing textiles out of the list of AED items.

4.5 Goods and Services Tax (GST)

The Government has announced their policy intent to introduce a national Goods and Services Tax (GST) w.e.f. April 1, 2010. The roadmap and design for GST for India is being finalized in consultation between the Central Government and the States through the EC.

5 Central Economic Intelligence Bureau

The Central Economic Intelligence Bureau is the nodal agency on economic intelligence. It was set up in 1985 for coordinating and strengthening the intelligence gathering activities, and enforcement action by various agencies concerned with investigation of economic offences and enforcement of economic laws.

The Bureau has set up a database on economic offenders and offences as also various institutional frame works for exchange of intelligence inputs relating to economic intelligence. The COFEPOSA Act 1975(Conservation of Foreign Exchange and prevention of Smuggling Activities Act) was administered during the year to tackle the menace of smuggling and foreign exchange racketeering. The Bureau has also organized a number of training courses for the officers of the Department of Revenue to enhance their investigative skills.

6. Narcotics Control Division

Opium produced by the farmers is procured by the CBN and transferred to Government Opium and Alkaloid Works at Ghazipur and Neemuch. It is dried and exported from these factories. Some part of the opium is also used to extract alkaloids for supply to pharmaceutical companies. Under Department of Revenue, Narcotics Control Division, there are two field formations of the Department directly concerned with narcotics:- (1) Central Bureau of Narcotics (CBN) and (2) Government Opium & Alkaloid Works (GOAW); Neemuch and Ghazipur under the Chief Controller of Factories;

Officers of the Central and State Governments who are empowered by their Governments can enforce the NDPS Act, 1985. Officers of CBN, Customs, Central Excise and Directorate General of Revenue Intelligence enforce the NDPS Act, 1985.

During the crop year 2007-08, 170 tonnes of opium, at 70 degree consistence was procured by CBN. The average yield at 70 degree consistence on basis of provisional results received from MP, Rajasthan and UP for the crop year 2007-08 was 65.90, 62.09 & 49.83 kg/hectare respectively. The All India average yield during 2007-08 was 64.235 kg/hectare at 70 degree consistency (provisional) the highest ever achieved. As the total opium alkaloids produce by the GOAWs is not sufficient to meet the domestic demand, the Government has decided to allow other companies to produce alkaloids from opium to be supplied by GOAWs. Two companies have been identified for issue of licences for the purpose.

7. National Committee for Promotion of Social and Economic Welfare

This Committee was constituted in 1992. It recommends projects/schemes for promotion of sports, social and economic welfare and pollution control to the Central government for notification under Section 35AC of the Income Tax Act. The funding of the approved projects is through donations on which the donors are entitled to 100 percent tax exemption under the Income Tax Law. In the financial year 2008-09 (i.e. upto December 2008), four Business Meetings were held in which 523 applications for various projects/schemes were considered and 190 projects/schemes were approved.

8. Directorate of Enforcement

This Directorate has been re-organised during the year 2006-07. It has adjudicated 80 cases (under erstwhile FERA, 1973) and 154 cases (under FEMA, 1999) during the period April-November, 2008 and has realized penalties to the tune of Rs.08.53 crore under FERA, 1973 and Rs.01.24 crore under FEMA, 1999 during the same period. 85 cases have been disposed of in the prosecutions launched earlier under Section 56 and 57 of FERA, 1973 under the Prevention of Money Laundering Act, 2002 (PMLA), 56 cases for investigation has so far been registered. Investigations have been completed in two cases and prosecution complaints have been filed before the designated Special Courts. As an outcome of investigations, 24 tainted properties worth over Rs.40 crore have been provisionally attached. Besides, 2 persons were also arrested under the provision of PMLA 2002.

9. Office of Adjudicating Authority under Prevention of Money Laundering Act, 2002

9.1 The Prevention of Money Laundering Act (PMLA), 2002 was enacted by the Parliament to prevent money laundering and connected activities, confiscation of proceeds of crime and setting up of agencies and mechanism for coordinating measures for combating money laundering.

9.2 As on 31.12.2008, the Adjudicating Authority has received 52 Enforcement Case Information Report (ECIR) and 24 Original Complaints (OCs). Final orders have already been passed in 22 OCs and two are in the process of hearing.

10. Financial Intelligence Unit-India (FIU-IND)

10.1 The Government of India set up Financial Intelligence Unit-India (FIU-IND) in November, 2004 as the Central National Agency responsible for receiving, processing, analyzing and disseminating information relating to suspect financial transactions to enforcement/intelligence agencies. FIU-IND is a multi-disciplinary body and is headed by Director who is of the level of Joint Secretary to the Government of India. The main functions of FIU-IND are to receive cash counterfeit currency and suspicious transaction reports from various entities in financial sector, analyze them and as appropriate, disseminate actionable information to law enforcement and investigating agencies, including to foreign FIUs.

10.2 **Highlights of the work done by FIU-IND**

i) Till 31-12-2008, FIU-IND has received more than 99 Lakh CTRs and more than 4900 STRs.

ii) FIU-IND has disseminated information in more than 2500 cases to various intelligence and law enforcement agencies up to 31-12-2008.

iii) FIU-IND has initiated Project FINNet- Financial Intelligence Network, with the objective to "Adopt industry best practices and appropriate technology to collect, analyze and disseminate valuable financial information for combating money laundering and related crimes". The Project consists of two phases i.e. Phase I- Preparation of the Consultancy Report and Phase II – Implementation of the Consultancy Report.

iv) FIU-IND has developed and hosted its website at www.fiuindia.gov.in. The website contains information on the Prevention of Money Laundering Act 2002, obligations of reporting entities, scheduled offences, notifications and publications with appropriate links between related sections.

v) FIU-IND has been providing faculty support at various workshops conducted by regulators and industry associations of reporting entities at various places to increase awareness of their obligations under PMLA and issues relating to reporting to FIU-IND.

vi) FIU-IND has become member of the Egmont Group which is the international organisation for stimulating co-operation among FIUs in June 2007. FIU-IND has started exchange of information with its counterpart FIUs.

11. Implementation of Official Language Policy

The Department of Revenue is notified under Rule 10(4) of the Official Language Rules, 1976. All the documents under Section 3(3) of the Official Languages Act, 1963, were invariably issued bilingually. A meeting of the Joint Hindi Salahkar Samiti was held on 30 July, 2008 under the chairmanship of Minister of State (EB&I). In Feb., 2008, the Department of Disinvestment was inducted in the Joint Hindi Salahkar Samiti of the Department of Revenue, Department of Expenditure and Office of the Comptroller and Auditor General of India. The tenure of the existing Committee was extended for a period of one year, i.e. upto April 2009. The meetings of the Official Language Implementation Committee were also held at regular intervals. Hindi Day was observed in the Department and Hindi Pakhwara was celebrated from 14 September, 2008 to 28 September 2008 during which various competitions were organized. Inspections of 08 subordinate offices of this department were carried out during the year 2008 to assess the progress in the use of Hindi in the Department.

Chapter IV
Department of Disinvestment

1. Introduction

1.1 The Ministry of Disinvestment was converted into a Department under the Ministry of Finance with effect from 27th May 2004 and was assigned all the work relating to disinvestment, which was earlier being handled by the Ministry of Disinvestment. In January 2006, the Department of Disinvestment has also been assigned the work relating to financial policy in regard to utilization of the proceeds of disinvestment channelised into the National Investment Fund.

1.2 The National Common Minimum Programme adopted by the Government outlines the policy of the Government with respect to the Public Sector, including disinvestment of Government's equity in Central Public Sector Enterprises (CPSEs).

1.3 The Government has constituted a "National Investment Fund" (NIF), in November, 2005 into which the proceeds from disinvestment of CPSEs would be channelised. NIF is being maintained outside the Consolidated Fund of India and professionally managed by the selected Public Sector Mutual Funds to provide sustainable returns without depleting its corpus. Seventy five percent of the annual income of NIF will be used to finance selected social sector schemes, which promote education, health and employment. The residual twenty five percent of the annual income of NIF would be used to meet the capital investment requirements of profitable and revivable CPSEs that yield adequate returns, in order to enlarge their capital base to finance expansion/diversification.

2. Functions and Organisational structure

2.1 The Department of Disinvestment was set up vide Notification No. CD/551/99 dated 10th December, 1999. Vide Notification No. CD-442/2001 dated 6th September, 2001, the Department of Disinvestment was renamed as Ministry of Disinvestment. The Ministry of Disinvestment was converted into a Department under the Ministry of Finance vide Notification No. CD-160/2004 dated 27th May, 2004 and has been assigned the following work:

(a) All matters relating to disinvestment of Central Government equity from Central Public Sector Undertakings.

(b) All matters relating to sale of Central Government equity through offer for sale or private placement in the erstwhile Central Public Sector Undertakings.

Note: All other post disinvestment matters, including those relating to and arising out of the exercise of Call option by the Strategic Partner in the erstwhile Central Public Sector Undertakings, shall continue to be handled by the administrative Ministry or Department concerned, where necessary, in consultation with the Department of Disinvestment.

(c) Decisions on the recommendations of Disinvestment Commission on the modalities of disinvestment, including restructuring.

(d) Implementation of disinvestment decisions, including appointment of Advisors, pricing of Shares, and other terms and conditions of disinvestment.

(e) Disinvestment Commission.

(f) Central Public Sector Undertakings for purposes of disinvestment of Government equity only.

(g) Financial policy in regard to the utilization of the proceeds of disinvestment channelised into the National Investment Fund.

2.2 Consequent upon change in the policy of the Government the term of Disinvestment Commission was not extended further and it was wound up with effect from 31st October, 2004.

2.3 Shri Vivek Mehrotra held the charge of the post of Secretary, Department of Disinvestment from 1st April, 2008 to 19th January, 2009. Shri Rahul Khullar assumed the charge of Secretary, Department of Disinvestment in the afternoon of 19th January, 2009.

2.4 Secretary, Department of Disinvestment is assisted by three Joint Secretaries besides the Chief Executive Officer, NIF (Joint Secretary level officer). The Department functions on the Desk Officer pattern and the disinvestment work is handled at the minimum level of Under Secretary.

2.5 The Government prepared a White Paper on Disinvestment of Central Public Sector Enterprises and this document was laid on the Table of the Lok Sabha and Rajya Sabha on 23rd and 27th November 2007 respectively.

3. Activities, targets and achievements during the calendar year 2008

i. In March 2008, Government disinvested 10% pre issue capital of Rural Electrification Corporation Limited (REC) in conjuncton with Initial Public Offering by REC by way of fresh issue of equity equivalent to 10% of pre-issue paid up capital of the company. The Government realized Rs. 819.63 crore.

ii. In February 2007, Government decided to disinvest pre issue capital of National Hydro-electric Power Corporation Limited (NHPC) in conjunction with Initial Public Offering by NHPC by way of fresh issue of equity equivalent to 10% of pre-issue paid up capital of the company. The decision is at different stages of implementation.

iii. In August 2007 Government decided to disinvest 10% pre-issue capital of Oil India Limited (OIL) in favour of Indian Oil Corporation Limited, Hindustan Petroleum Corporation Limited, Bharat Petroleum Corporation Limited in the ratio of 2:1:1 respectively simultaneously with Initial Public Offering by OIL by way of fresh issue of equity equivalent to 11% post issue paid up capital of the company. The decision is at different stages of implementation.

iv. In January 2008, Government decided to disinvest 10% pre issue equity capital of RITES Limited in conjunction with Initial Public Offering by RITES Limited by way of fresh issue of equity equivalent to 10% of pre-issue paid up equity capital of the company. The decision is at different stages of implementation.

v. As on 31.12.2008 the corpus of the National Investment Fund is Rs.1814.45 crore.

Chapter V
Department of Financial Services

1. Agriculture Credit

1.1 Agriculture Credit Flow

1.1.1 On 18th June, 2004, the Government announced a package for doubling the flow of credit to agriculture and allied activities in a period of three years commencing from 2004-05 over the amount disbursed during the year 2003-04. This goal was achieved in two years.

1.1.2 The Agriculture credit disbursement increased nearly three times from Rs.86,981 crore in 2003-04 to Rs.2,43,570 crore in 2007-08. The target for 2008-09 is Rs.2,80,000 crore and the disbursement of Rs.1,69,837 crore has already been made by the banks (provisional figures till end Dec., 2008).

1.2 Interest Subvention Scheme

1.2.1 In 2006-07, an amount equal to two percentage points of the borrower's interest liability on the principal amount upto Rs.1,00,000/-, on crop loans availed by the farmers for Kharif and Rabi 2005-06, was credited to borrower's account.

1.2.2 Further, the Government provided interest subvention @ 2% to Public Sector Banks, Regional Rural Banks (RRBs) and Cooperative Credit Institutions (CCIs) on the amount of loan disbursed out of their own resources and concessional refinance to Cooperative Banks and RRBs by subventing the interest differential between the cost of funds and the rate of refinance by NABARD during the years 2006-07 and 2007-08 to ensure that the farmer receives short-term credit @ 7 % p.a., with an upper limit of Rs.3,00,000/- on the principal amount per farmer. This scheme continues during the year 2008-09 with the same stipulations except that the interest subvention is being provided @ 3% to Public Sector Banks, Cooperative Banks and Regional Rural Banks on the amount of loan disbursed out of their own resources. So far, around Rs.870 crore, Rs.1,856 crore and Rs.2,472 crore have already been reimbursed to the lending institutions during the years 2005-06, 2006-07 and 2007-08 respectively for implementation of the scheme.

1.3 Financial Inclusion

1.3.1 Based on the recommendations of the Interim Report of the Committee on Financial Inclusion, headed by Shri C. Rangarajan, the Government has constituted the "Financial Inclusion Fund (FIF)" for meeting the cost of developmental and promotional interventions of financial inclusion, and the "Financial Inclusion Technology Fund (FITF)," to meet the cost of technology adoption. Each Fund consists of an overall corpus of Rs. 500 crore, to be contributed by the GoI, RBI and NABARD in a ratio of 40:40:20, in a phased manner over five years, depending upon utilisation of funds. For the year 2007-08, a contribution of Rs.25 crore was to be made to each of these funds by the GoI, RBI and NABARD in the ratio 40:40:20 for which the GoI has already contributed Rs.10 crore in each of these two Funds. Both the funds are housed in NABARD. The Guidelines for these two Funds have been formulated and meetings of Advisory Boards are being held at regular intervals to plan strategy and consider proposals for financial inclusion.

1.3.2 IBA and NABARD have advised the Scheduled Commercial Banks and RRBs to achieve the target of adding 250 rural household accounts every year at each of their rural and semi urban branches.

1.4 Rural Infrastructure Development Fund (RIDF)

The Corpus of RIDF, which was Rs.5,500 crore during the year 2003-04, has increased to Rs.14,000 crore for the year 2008-09 (RIDF- XIV). A separate window under RIDF-XII for rural roads with a corpus of Rs.4,000 crore each, during 2006-07, 2007-08 and 2008-09 have been created. So far, projects worth Rs.11,590.65 crore have been sanctioned against the normative allocations for the States under RIDF-XIV. Besides, Rs.1,315.40 crore has been disbursed to NRRDA by NABARD against Rs.4,000 crore sanctioned to it for Rural Roads Component of Bharat Nirman for 2008-09.

1.5 Revival of Cooperative Credit Structure

Based on the recommendations of Prof. Vaidyanathan Committee, in consultation with the states, a revival package for the Short Term Cooperative Credit Structure (STCCS) has been formulated. It envisages a total outlay of Rs.13,596 crore to be shared by Govt. of India, State Governments and the CCS in the ratio of

68:28:4. The assistance will be available for (a) wiping out accumulated losses, (b) covering invoked but unpaid guarantees given by State Governments, (c) increasing the capital to a minimum level of 7% and (d) technical assistance (including cost of special audit, training, computerization etc). So far 25 States have signed the MoU with GoI and NABARD for implementation of the revival package for Short Term Cooperative Credit Structure (STCCS). Out of Rs.4,970.37 crore released to NABARD, Rs. 4,519.23 crore has already been utilised.

1.6 **Agricultural Debt Waiver and Debt Relief Scheme (ADWDRS) 2008**

1.6.1 The Scheme of Agricultural Debt Waiver and Debt Relief Scheme (ADWDRS) 2008 for farmers has been implemented by its due date i.e. 30.06.2008. As per reports received from RBI, NABARD, SLBCs and PSBs so far, the provisional figures of waiver/debt relief is Rs.65,318.33 crore covering 3,68,77,818 farmers.

1.6.2 All the PSBs have uploaded the ADWDRS data on their respective Websites. Besides, NABARD has uploaded ADWDRS data of 83 RRBs on its Website as on 31.12.2008.

1.6.3 The 1st installment of reimbursable claims of the lending institutions under the Agricultural Debt Waiver and Debt Relief Scheme, 2008 of Rs.25,000 crore has been released to the Reserve Bank of India.

1.7 **Funds for NABARD, SIDBI and NHB**

In order to increase the resource base of NABARD, SIDBI and NHB, the Government has constituted four Funds with these banks viz. STCRC Fund with NABARD- Rs.5,000 crore; MSME (Refinance) Fund - Rs.3,600 crore and MSME (Risk) Fund- Rs.1,000 crore with SIDBI; and RHD Fund – Rs.2,000 crore with NHB.

2. Banking Operations

2.1 **Legislative Proposals**

(i) Enactment of new legislation viz. Payment & Settlements System Act, 2007 – A new legislation on Payment and Settlement Systems providing for a legal basis to recognize clearing houses, legal sanction to netting of payments with receipts, finality of settlement, recognition of service providers and participants, electronic mode of payments and explicit powers of supervision over securities clearing and settlement has been enacted in December, 2007. The Act came into force on 12th August, 2008.

(ii) Proposal for moving official amendments to the SBI (Amendment) Bill, 2006 - The Bill has been introduced in the Lok Sabha on 18.12.2006 and was referred to the Standing Committee on Finance. Based on the recommendations of the Committee, the official amendments to the Bill have been approved by the Cabinet at its meeting held on 24.7.2008. The Bill is presently pending for consideration and passing in the Lok Sabha.

(iii) Proposal for amendment to the SBI (Subsidiary Banks) Act, 1959 – Consequent upon the transfer of shares of Reserve bank to Central Government, the Cabinet at its meeting held on 24.7.08 has approved amendments to the SBI (Subsidiary Banks) Act mainly dealing with the process of obtaining approval of / consultation with the Central Government in place of Reserve Bank. A Bill to amend the SBI (Subsidiary Banks) Act, 1959 is ready for introduction in the Lok Sabha.

(iv) Proposal to Repeal the State Bank of Saurashtra Act, 1950 Consequent upon merger of State Bank of Saurashtra with State Bank of India, a bill to repeal the act is ready for introduction in the Lok Sabha.

(v) A Bill to amend the Banking Regulation Act providing for removal of ceiling of voting rights, permitting banks to raise capital by way of preference shares and private placement etc. is in Lok Sabha for consideration and passing.

2.2 **Policy Decisions**

(i) Guidelines for appointment of Whole Time Directors in the nationalised banks have been issued.

(ii) Guidelines for appointment of Deputy Governors in RBI banks have been issued

2.3 **Foreign Direct Investment in Credit Information Companies**

It was decided to permit Foreign Investment i.e. Foreign Direct Investment (FDI) and Foreign Institutional Investment (FII) In the equity capital of Credit Investment Companies, initially upto 49% subject to the certain conditions.

2.4 **The Credit Information Companies (Regulation) Act, 2005 – Issue of Order of Removal of Difficulty.**

2.4.1 In terms of in sub-section (1) of Section 15 of the Act, every credit institution in existence on the commencement of the Act is required to become member of at least one credit information company before the expiry of three months from such commencement.

2.4.2 Since no company had yet been granted a certificate of registration under Section 5 of the Act to commence or carry on the business of credit information, it has become necessary for giving effect to the provisions of the Act to extend the aforesaid time limit. In exercise of powers conferred by Section 35 of the Act, Credit Information Companies (Regulation) (Removal of Difficulties) Order, 2008 dated January 24, 2008, was issued extending the last date for taking membership of at least one credit information company by credit institutions, to December 31, 2008.

2.4.3 Since no company had yet been granted a certificate of registration, another Credit Information Companies (Regulation) (Removal of Difficulties) Order, 2008 (second of 2008) was issued on 12.12.2008 extending the last date for taking membership of at least one credit information company by credit institutions, to December 31, 2009.

2.5 **Subscribing to the Rights Issue of State Bank of India by the Government.**

To be able to meet its targetted business growth and statutory capital requirements, State Bank of India (SBI) proposed to raise its equity capital. The various options available with SBI were examined and the Bank was permitted to raise capital through Rights Issue of equity shares. Government subscribed an amount of around Rs.10,000 crore to the Rights Issue of SBI against issue of Special Marketable Government Securities.

2.6 **Issue of RBI Guidelines on ‘Engaging Recovery Agents by banks’.**

This Department had been receiving number of references from various quarters regarding the abusive practices being followed by the recovery agents engaged by some banks, while approaching the borrowers for recovery of loans. Matter was taken up with RBI to issue suitable guidelines in this regard. RBI has issued guidelines on Recovery Agents on 24th March, 2008.

2.7 **Merger of State Bank of Saurashtra with State Bank of India**

2.7.1 On 25.08.2007, the State Bank of India (SBI) Board took a unanimous decision to merge its wholly owned subsidiary, the State Bank of Saurashtra with itself. The State Bank of Saurashtra Board also decided unanimously to merge the Bank with the State Bank of India. SBI was not to make any payment to SBS for the merger, as SBI was taking within its fold its 100% subsidiary bank i.e. SBS and no cash outgo was envisaged. Accordingly, an Order sanctioning the Scheme of Acquisition of State Bank of Saurashtra by State Bank of India, in terms of section 35 (2) of the State Bank of India Act,1955 has been notified on 11.08.2008 with Cabinet approval.

2.8 **Restructuring of the equity capital of UCO Bank**

To enable the Bank improve its financials including Earning Per Share (EPS) for raising Capital through FPO at an appropriate time at an attractive premium and to meet its growth targets, UCO Bank had submitted a proposal to restructure its equity capital. The proposal was examined and with the approval of the Union Cabinet, equity capital of the Bank (i.e. Rs.799.36 crore) has been restructured by converting an amount of Rs.250 crore into ‘Perpetual Non-cumulative Preference Shares (PNCPS)’ while retaining the balance of Rs.549.36 crore as equity capital of the Bank. Further, the Bank has also been permitted to raise PNCPS of Rs. 325 crore from the market.

2.9 **Restructuring of the equity capital of Punjab & Sind Bank – Issuing of orders.**

2.9.1 To enable the Bank improve its financials including Earning Per Share (EPS) for raising Capital at an attractive premium and to meet its growth targets, Punjab & Sind Bank had submitted a proposal to restructure its equity capital. With the approval of the Union Cabinet, equity capital of the Bank (i.e. Rs.743.06 crore) has been restructured by converting an amount of Rs.160 crore into ‘Innovative Perpetual Debt Instrument (IPDI)’ (under Tier – I), Rs.200 crore into ‘Perpetual Non-cumulative Preference Shares (PNCPS)’ (under Tier – I) and Rs.200 crore into ‘Perpetual Cumulative Preference Shares (PCPS)’ (under Tier II Capital), while retaining Rs.183.06 crore as the equity capital of the Bank.

2.10 **Establishment of Currency Chests**

2.10.1 The policy regarding establishment of Currency Chests has been framed in consultation with Ministry of Home Affairs and RBI in February, 1992. As per this policy, RBI can establish Currency Chest in Military Cantonment Areas or in State Capitals situated within 80 kms from the international border and also beyond 80 kms without prior clearance of Ministry of Finance and MHA. However, in the case of Punjab, Kashmir Valley, Assam, Nagaland and Manipur States, proposals are sent to this Department for obtaining prior clearance of MHA.

2.10.2 In view of operational difficulties faced RBI/Ministry of Finance in getting the required clearance from MHA in North-Eastern States of Assam, Manipur and Nagaland, the policy related to opening of Currency Chest has been revised. As per the revised policy, RBI has been authorised to open currency chests in these States without making any reference to Government of India, after satisfying itself about certain security requirements. MHA has been objecting to the revised policy citing security reasons. In order to resolve the issue, a meeting has been convened by Secretary (FS) on 10.7.2008 to address the concerns expressed by the Ministry of Home Affairs and issues raised by the RBI. After detailed discussions, it has been agreed that:

(i) In all places where currency chests have already been established after issue of the above O.M., in the States of Assam, Manipur and Nagaland, new currency chests may be established by RBI without seeking the permission of MHA so long as security requirements stipulated in the O.M. dated 8th June, 2006 are observed by the RBI.

(ii) For setting up of currency chests in other centres, in the States of Assam, Manipur and Nagaland, RBI would seek the concurrence of the MHA as per O.M. dated 21st January, 1992. RBI can, presume deemed clearance if no communication is received from the Home Ministry within a period of three months from the date of receipt of the proposal, in that Ministry.

2.11 **Operational training on CPGRAMS**

2.11.1 Department of Administrative Reforms & Public Grievances (DARPG) with technical support from National Informatics Centre (NIC) has developed a portal called Centralised Public Grievance Redressal & Monitoring System (CPGRAMS) for prompt and effective redressal of grievances of citizens. Department of Financial Services (DFS) has been designated as a nodal agency for the purpose of redressing of grievances of Scheduled Commercial Banks. DFS in consultation with NIC has integrated all the Scheduled Commercial Banks, Banking Ombudsman offices, RBI, NABARD etc. with the portal. A training programme has been organised for all these agencies, Zone-wise through out the Country for successful and extensive use of the portal.

2.11.2 All the Public Sector Banks have also been advised to ensure that the CPGRAMS portal is used extensively for prompt and effective redressal of grievances and review of all this pending grievances/complaints may also be undertaken expeditiously.

3. Institutional Finance

3.1 **India Infrastructure Finance Company Ltd**

3.1.1 India Infrastructure Finance Company Ltd (IIFCL) is a wholly owned Government company to finance viable infrastructure projects. IIFCL was incorporated in January, 2006 and is governed by SIFTI – (Scheme for Infrastructure Financing). IIFCL's authorized capital was raised from Rs.1,000 crore to Rs.2,000 crore and its present paid up capital is Rs.1,000 crore. IIFCL is financing eligible infrastructure projects in sectors like roads, ports, power, urban infrastructure etc. as per SIFTI to support financial closure of infrastructure projects. By the end of December, 2008, IIFCL has sanctioned loans for an amount of about Rs.18,700 crore to 88 projects involving a project cost of Rs.1,47,000 crore. Out of these, 75 projects have achieved financial closure. An amount of Rs.3563 crore has been disbursed.

3.1.2 Following the announcement of the Hon'ble Finance Minister in the Union Budget 2007-08, IIFCL (UK) Ltd, has been set up at London on February 7, 2008 as a wholly-owned subsidiary of India Infrastructure Finance Company. The main objective of the company is to borrow funds from the RBI to provide financial support to Indian companies implementing infrastructure projects in India for the purpose of meeting their capital expenditure out-side India and for import of capital equipment and machineries. RBI has agreed to provide a term loan of US$ 5 billion to IIFCL (UK) Ltd. So far it has sanctioned six proposals for US$ 900 million.

3.1.3 The Government had announced a stimulus package on 7.12.2008, which included inter-alia measures to support financing of infrastructure projects. As per the stimulus package, IIFCL has been authorized to raise tax-free bonds upto Rs.10,000 crore in tranches by March, 2009. Further for stimulating the economy, Government had announced a second package on 02.01.2009, which included measures to fund infrastructure projects of about Rs.75,000 crore at competitive rates over the next 18 months. For this IIFCL will be enabled to access in tranches an additional Rs.30,000 crore by way of tax free bonds once funds raised in the current financial year are effectively utilised.

3.2 Irrigation & Water Resources Finance Corporation (IWRFC)

3.2.1 In the Budget Speech for 2008-09, the Finance Minister made an announcement that keeping in view the massive investments required to be made in irrigation projects, Government proposes to establish the Irrigation and Water Resources Finance Corporation (IWRFC) with an initial capital of Rs.100 crore contributed by the Central Government to mobilise the very large resources that will be required to fund major and medium irrigation projects.

3.2.2 In compliance with the above announcement, Irrigation and Water Resources Finance Corporation Limited (IWRFC) has been set up as a Company under the Companies Act, 1956 with an initial paid up capital of Rs.100 crore contributed by Central Government, State Governments and other financial institutions will be invited to contribute to the equity. The processes for operationalisation of IWRFC are underway.

3.3 Export-Import Bank of India (Exim Bank)

3.3.1 Exim Bank of India, set up in 1982 by an Act of Parliament for the purpose of financing, facilitating and promoting foreign trade of India, is the principal Financial Institution in the country for coordinating working of institutions engaged in financing exports and imports. It is wholly owned by the Government of India.

3.3.2 Exim Bank lays special emphasis on extension of Lines of Credit (LOC) to overseas entities, national governments, regional financial institutions and commercial banks. Bank's LOC portfolio has grown, in recent years. Bank has built up a menu of 107 operative LOCs spread across 94 countries, with credit commitments aggregating US$ 3,464 million (equivalent Rs.17,318 crore), as on November 30, 2008, available for financing exports from India. During the 8 months period of April-November 2008, 18(eighteen) LOC Agreements with credit amounts aggregating US$ 501 million (Rs.2505 crore) have been concluded.

3.3.3 Fresh loan approvals during April-December 2008 amounted to Rs.24,859 crore and disbursements Rs.20,199 crore. The Bank's portfolio of loans and advances amounted to Rs. 30,411 crore as on December 31, 2008. As on November 30, 2008, 219 project export contracts valued at Rs.59,869 crore (approx. USD 11.97 bn), supported by the Bank, were under execution, in 38 countries across Asia, Africa and Europe by 45 Indian companies. Of these, 23 contracts valued at Rs.10,844 crore under execution in 12 countries, by 14 companies, were secured during the current fiscal year 2008-09.

3.3.4 Exim Bank also actively supports and facilitates outward investments by Indian companies in their quest for enhanced access to global markets. EXIM Bank has obtained from RBI a line of credit of Rs.5,000 crore to provide pre-shipment and post-shipment credit, in rupees or dollars, to Indian exporters at competitive rates.

3.3.5 During the FY 2008-09, a sum of Rs.100 crore was provided towards capital of the Bank and another Rs. 200 crore will be provided during the current financial year with which paid up capital will become Rs.1400 crore as against the authorized capital of Rs.2000 crore.

3.4 Interest Subvention to Exporters

3.4.1 To help the exporters, in the wake of rupee appreciation, the Government had allowed interest subvention to 11 categories of exporters (including all exporters in the SME sectors) from 13th July, 2007 which was initially applicable upto 31st March, 2008. However, scheme was continued till 30th September, 2008.

3.4.2 Again, with a view to insulate the employment oriented export sector from the global slowdown, the Government of India decided to extend Interest subvention of 2% w.e.f. 1.12.2008 till March 31, 2009 on pre shipment credit, for seven employment oriented export sectors. The subvention would be provided to the Banks through the RBI as per existing RBI guidelines.

3.5 **International Cooperation**

i) **India-Japan**

A MoU was signed between Japan Bank for International Cooperation (JBIC) and IIFCL / Delhi-Mumbai Industrial Corridor Development Corporation (DMICDC) during the Hon'ble PM visit to Japan on 22-23 October, 2008. As per the MoU, JBIC, IIFCL & DMICDC have agreed to cooperate in the realisation of a loan of upto 75 million US$ / or in equivalent currency to be advanced by JBIC on mutually agreed terms and conditions.

ii) **India-Oman**

It is proposed to set up an India-Oman Joint Investment Fund with an initial corpus of US $ 100 mn. SBI has been designated as the Agency for operationalisation of the Joint Investment Fund. An MoU was signed on 08.11.2008 between the State Bank of India and the State General Reserve Fund of Sultanate of Oman for making joint investment in infrastructure and other projects.

3.6 **Credit to Micro, Small and Medium Enterprises (MSME) Sector**

3.6.1 The credit flow to SME sector extended by the PSBs at the end of September, 2007 was Rs.2,13,119 crore, which increased to Rs.2,65,083 crore at the end of September, 2008, thus showing a growth of 24.38%.

3.6.2 As a part of stimulus package announced on December 7, 2008 RBI has announced a refinance facility of Rs.7000 crore for SIDBI to support incremental lending to MSME.

3.6.3 As per Budget Announcement 2008-09, following two funds have been created and made operational:

(i) A MSME (Risk Capital) Fund with an initial corpus of Rs.1000 crore.

(ii) A MSME (Refinance) Fund with initial allocation of Rs.1600 crore which was enhanced to Rs.3600.

3.7 **Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGTMSE)**

(i) Credit Guarantee Fund Trust for Small Industry(CGTSI) formally launched, on August 30, 2000 with an initial corpus of Rs.125 crore.

(ii) As on 30.9.2008, the cumulative guarantees under CGTMSE are for 117842 SSI units covered a credit assistance of Rs.3,474 crore as against 81,345 SSI units for Rs.2,152 crore upto 30.9.2007.

(iii) A number of initiatives have been taken by the Government to enhance the coverage of credit guarantee to enhance lending to the MSE Sector.

(a) One time guarantee fee was reduced from 2.5% to 1.5%. Further, as announced in the Budget 2008-09, one time guarantee fee has been further reduced from 1.5% to 1%.

(b) Annual service fee has been reduced from 0.75% to 0.50% in respect of credit facility up to Rs.5 lakh sanctioned by Banks/ Member Lending Institutions (MLIs) to the Micro and Small Enterprises.

(iv) The Scheme provided guarantee cover upto the credit of Rs.50 lakhs. However, in the stimulus package announced by the Govt. on December 7, 2008 to stimulate the SME Sector, the guarantee cover under the scheme has been extended from Rs.50 lakh to Rs.1 crore.

In addition, the lock in period for loans covered under the existing credit guarantee scheme has been reduced from 24 to 18 months, to encourage banks to cover more loans under the guarantee scheme.

(v) In the subsequent package announced on January 2, 2009, it has been further decided to increase the guarantee cover extended by CGTMSE to 85% for credit facility upto Rs.5 lakh, which is likely to benefit about 84 per cent of the total number of accounts accorded guarantee cover.

3.8 **SME Rating Agency (SMERA)**

(i) A credit agency for SMEs has been set up and made operational from September, 2005. SMERA's primary objective is to provide ratings that are comprehensive, transparent and reliable and which would enable the rated units to borrow funds at comprehensive rates of interest. SMERA has signed MoU with 25 banks and SFCs which are availing of SMERA's services, for offering interest concession to the rated units.

(ii) Till 31.10.2008, SMERA has completed 2148 ratings for SMEs since commencement of its operations out of over 3235 applications generated. Of this, 145 (as on 31.5.2008) form review ratings of SMEs rated in previous years by SMERA. SMERA has also completed risk profiling studies of 13 clusters located in different parts of the country under Textile, Auto, engineering & Fabrication, Steel Furniture, Pharma. and Rubber Product sectors. SMERA has supported setting up facilitation centres at Coimbatore, Ludhiana, Ahmedabad and Jamshedpur. It has taken forward the project of Risk Profiling of MSME Clusters and completed nine such studies by March, 2008.

3.9 **Cluster Based Approach :**

In view of benefits accruing on account of reduction in transaction costs, banks have adopted cluster based approach for financing SME Sector. So far SIDBI has covered 203 clusters under the Scheme of Small Enterprises Financial Centres (SEFC) all over the country.

4. Credit Monitoring and Development

4.1 **Priority Sector Lending**

4.1.1 All domestic scheduled commercial banks (excluding Regional Rural Banks) are required to lend at least 40 per cent of their Adjusted Net Bank Credit (ANBC) to the priority sector. Within this overall target banks are required to lend 18 per cent of ANBC to agriculture sector and 10 per cent of ANBC to the weaker sections.

4.1.2 The total outstanding priority sector advances of Public Sector Banks (PSBs) stood at Rs.6,08,963 crore as on last reporting Friday of March 2008 and the outstanding advances of PSBs to weaker sections were Rs.1,26,935 crore.

4.2 **Economic Empowerment of Women**

4.2.1 Recognizing the problems being faced by women in India in reaching out to the formal banking system and in order to improve the credit delivery to women, The Public Sector Banks (PSBs) were advised in December 2000 to implement a 13 Point Action Plan. Under the said Action Plan, the banks were advised, inter-alia, to earmark 5 per cent of their net bank credit (NBC) for lending to women within 3 years viz. by March 2004. As on March 31, 2008, PSBs have achieved 6.12 per cent of ANBC.

4.2.2 Under Government Sponsored Schemes for poverty alleviation and self employment viz. Swarna Jayanti Shahari Rozgar Yojana (SJSRY), Swarnajayanti Gram Swarozgar Yojana (SGSY), certain share has been allocated i.e. 40 per cent under SGSY and 30 per cent under SJSRY to women entrepreneurs.

4.2.3 Another important channel for reaching bank credit to the women is Self Help Groups (SHGs). As on 31st March, 2008, 3477965 SHGs had been linked to banking system involving cumulative bank credit of Rs.22268.33 crore. About 90 per cent of the SHGs credit linked to banks are exclusive women groups.

4.3 **PM's 15 Point Programme for Welfare of Minorities**

As per roadmap prescribed, PSBs are required to step up lending to Minorities to 13% of their priority sector lending by 31.03.2009 and 15% by 31.03.2010. As per progress reported by PSBs (including IDBI) the progress (outstanding) as on 30.09.2008 work out to 9.90%.

4.4 **Opening of Bank Branches in Minority Concentrated Districts**

The Finance Minister's Budget Speech pertaining to the opening of 544 bank branches of Public Sector Banks in districts with substantial minority population by March 2008 is being monitored. As per information reported RBI, the number of new branches opened in minority concentration are as on 31.03.2008 stood at 534. Further, as per progress reported by PSBs (including IDBI) 240 (provisional figures) branches, against a target of more than 500 branches during the year 2008-09, have been opened in the first two quarters of the year 2008-09. The banks have been advised to pace up the progress and the new branches may be opened in Minority Concentrated Blocks.

4.5 **Educational Loan Scheme**

4.5.1 Educational loan scheme was started on 29.4.2001. The Scheme was revised in 2004, 2007-08 by IBA.

4.5.2 The educational loan scheme has been highly successful since its inception. The amount of loan has increased from Rs.4550 crore as on 31.03.2004 to Rs.24,268 crore (outstanding) as on 30.09.2008. The number of loan accounts has increased from 3,19,337 as on 31.03.2004 to 14,09,930 as on 30.09.2008.

4.6 Differential Rate of Interest (DRI)

4.6.1 The Differential Rate of Interest (DRI) Scheme was introduced in 1972 in pursuance of a policy statement made by the then FM in the Parliament. Under the scheme, Public Sector Banks are required to extend advances of one per cent of the total advances of previous year at 4 per cent interest rate. The loan limit for under the Scheme is Rs.15,000/- and for housing purpose Rs.20,000/- per beneficiary.

4.6.2 The income limit for the borrower's eligibility under DRI Scheme has been enhanced from Rs.6400 to Rs.18,000/- in rural areas and from Rs.7200/- to Rs.24,000/- in urban areas.

4.7 Government Sponsored Schemes

(i) **Prime Ministers' Rozgar Yojana (PMRY)**

The Prime Minister's Rozgar Yojana (PMRY) had been designed to provide employment to educated unemployed youth of economically weaker sections. The scheme aims at assisting the eligible youth in setting up self-employment ventures in industry, service and business sectors. The scheme covers urban and rural areas in whole of the country. Financial assistance from bank for p**roject cost up to** Rs.2.00 lakh for business/ service sector and Rs.5.00 lakhs for industry sector is provided.

A subsidy of 15% of the project cost subject to ceiling of Rs.12,500/- per entrepreneur is provided under the scheme.

As on 31st March, 2008 total outstanding loan of PSBs under the Scheme stood at Rs. 10685 crore in 1619260 accounts.

PMRY scheme has since been merged with Rural Employment Generation Programme (REGP) and a new scheme has been formulated by Ministry of MSME namely PRIME MINISTER Employment Generation Programme (PMEGP) scheme.

(ii) **Swarnjayanti Gram Swarozgar Yojana (SGSY)**

The Scheme aims at establishing a large number of micro enterprises in the rural areas. The list of Below Poverty Line (BPL) households identified through BPL census duly approved by Gram Sabha will form the basis for identification of families for assistance under SGSY. The objective of SGSY is to bring the assisted poor families (Swarozgaris) above the poverty line by ensuring appreciable sustained income over period of time.

As on 31st March 2008 total outstanding loans by PSBs under the scheme stood at Rs.4675 crore in 1561518 accounts.

(iii) **Swarnjayanti Shahri Rozgar Yojana (SJSRY)**

SJSRY seeks to provide gainful employment to the urban poor (living below the urban poverty line) unemployed or under-employed, through setting up of self-employment ventures or provision of wage employment. The scheme is to be funded on a 75:25 basis between the Centre and the States._Project cost upto Rs.50000/- is provided under the scheme in case of individual. If two or more eligible persons join together in a partnership, the project with higher costs would also be covered provided the share of each person in the project cost is Rs 50 000/- or less.

As on 31st March 2008 total outstanding loans by PSBs under the scheme stood at Rs.1484 crore in 457967 accounts.

4.8 Initiative on the Housing Sector

It has been the endeavour of the government to improve affordable housing specially in rural areas and for the rural poor by extending refinance and credit facilities at reasonable rates. Some of the recent initiatives in this direction are given below :

(i) The income criteria and loan limit under the Differential Rate of Interest (DRI) Scheme was revised upwards to accommodate more poor families to avail credit at 4 per cent for housing and also to be eligible for top-up loans under the Indira Awas Yojana (IAY) Scheme.

(ii) A Rural Housing Fund has been created in NHB with allocation of Rs.2000 crore during the current financial year for meeting the housing requirements of weaker sections under Priority Sector Lending. In addition a special refinance facility of Rs.4000 crore was made available to NHB to support the liquidity requirements of the Housing Finance Companies (HFCs).

(iii) The government introduced a novel product for senior citizens called the Reverse Mortgage under which senior citizens owning a house can now avail monthly stream of payments against mortgage of their house while remaining the owner and occupying the house throughout their life time without repayment or servicing of the loan. In order to clarify certain tax issues arising out of the scheme, relevant amendments were notified in the Income Tax Act in September 2008.

5. Insurance Sector

5.1.1 Insurance

The enactment of the Insurance Regulatory and Development Authority Act, 1999 paved the way for opening up of the insurance industry for private participation, in India. It simultaneously permitted foreign participation in the ventures set up by the private sector players.

5.1.2 The Government, however, restricted participation of the foreign joint venture partner through the FDI route to 26 per cent of the paid up equity of the Insurance companies.

5.2 New Entrants

Since opening up, the number of participants in the sector has been steadily going up, considering the vast potential in the Indian domain. From six insurers (including the Life Insurance Corporation of India - LIC, four public sector general insurers and the General Insurance Corporation - GIC) in the year 2000; the number of players has gone up to 42 insurers operating in the life, non-life and reinsurance segments as at October 2008. This includes specialized insurers, viz., Export Credit Guarantee Corporation, Agriculture Insurance Company; and two stand-alone health insurance companies. Of the 20 private life insurance companies, as many as 18 are in joint venture with foreign partners. Of the 12 private insurance companies set up in the non-life segment, 11 are in collaboration with foreign partners. In addition, two stand-alone health insurance companies have been set up in collaboration with joint venture foreign partners. Thus, as on date, 31 insurance companies in the private sector have been granted registration in the country in collaboration with some foreign insurance companies from across the globe.

5.3 Industry Development

(i) **Life Insurance Industry**

The total premium underwritten by the industry has grown from Rs.34,898 crore in 2000-01 to Rs.2,01,351 crore in 2007-08. The first year premium, which is a measure of new business secured, underwritten by the life insurers during 2007-08 was Rs.93,713 crore as compared to Rs.9,708 crore in 2000-01. In the current year, during the period of April to October,2008. The first year premium underwritten was Rs.39,686 crore as against Rs.38,615 crore in the corresponding period of the previous year.

(ii) **Non-life Industry**

The non-life insurers (excluding specialized institutions like ECGC and AIC) underwrote a total domestic premium to the tune of Rs.27,824 crore in 2007-08; as against Rs.9,807 crore in 2000-01. Two of the fastest growing segments are Motor and Health, accounting for 45.59 and 17.59 per cent of the premium underwritten in India in 2007-08. The premium underwritten in these two segments alone in 2007-08 was Rs.12,685 crore and Rs4,894 crore, respectively. During the current year, the non-life insurers underwrote premium of Rs.18,058 crore during April to October 2008 as against Rs.16,286 crore in the corresponding period of the previous year. While there is a considerable rise in the overall business post de-tariffing in terms of the number of policies, the growth in premium has slowed down on account of reduction in rates.

5.4 Penetration and Density

5.4.1 The potential and performance of the insurance sector is universally assessed in the context of two parameters viz. Insurance penetration and insurance density. Insurance penetration is defined as the ratio of premium underwritten in a given year to the GDP. Insurance density is defined as the ratio of premium underwritten in a given year to the total population (measured in US$ for convenience of comparison). The insurance penetration was 2.32 (life 1.77 and non-life 0.55) in the year 2000 when the sector was opened up to the private sector, and has increased to 4.60 in 2007 (life 4.00 and non-life 0.6). The increase in the levels of insurance penetration has to be assessed against the average growth of around 8 per cent in the GDP in the last few years. Insurance penetration in some of the emerging economies in Asia, viz. Malaysia, Thailand

and China, during the same period was 4.6, 3.4 and 2.9 respectively. The insurance density in India was US$ 9.9 in 2000 which has increased to US$ 46.6 in 2007.

5.5 **Aam Admi Bima Yojana**

5.5.1 'Aam Admi Bima Yojana' (AABY) was launched on 2nd October, 2007 to provide death and disability cover for the benefit of rural landless households in the country. The said scheme is being implemented through the Life Insurance Corporation of India (LIC). The premium under the scheme is Rs..200/- per member per annum, of which 50% is paid by the State Government and the remaining 50% of premium is met from a Fund contributed by the Government of India and maintained by LIC. AABY also includes a Shiksha Sahyog Yojana (SSY), a free add-on benefit of scholarship of Rs.100 per month up to a maximum of two children of the beneficiary studying between class IX and XII. For the implementation of the said scheme, a sum of Rs.1000 crore was provided to LIC in a Fund, named as 'Aam Admi Bima Yojana' Premium Fund, which is being used to pay the 50% share of the premium by Central Government. Another Rs.500 crore was placed with LIC in "Aam Admi Bima Yojana Scholarship Fund" to meet the expenditure of the scholarship to the children of the members. So far, 19 State Governments / UT Administrations have given their consent to implement the Scheme. A total of 60.32 lakh lives have been covered under the scheme as on 31.12.2008.

5.6 **Coverage of Self - Help Groups(SHGs)Credit linked to Banks-**

The Finance Minister in his Budget Speech 2008-09 had stated that The 'Self Help Groups, one of the category of Janashree Bima Yojana has been chosen for special attention with a view to rapidly scale up the scheme and cover all women SHGs credit linked to Banks. LIC has been asked to contact Banks, NABARD and other State Agencies and make all efforts to achieve the target coverage of 2.50 lakh SHGs under the Scheme by 31st March 2009. As on31/12/2008, 75,356 Self Help Groups (SHGs) with 9,24,930 lives have been covered under the Scheme.

5.7 **Government has introduced two bills in the Parliament on 22-12-2008 namely:-**

(i) Insurance Laws (Amendment), Bill 2008 to amend the Insurance Act, 1938, the General Insurance Business (Nationalization) Act, 1972 and Insurance Regulatory and Development Authority Act, 1999 in the Rajya Sabha; and

(ii) Life Insurance Corporation (Amendment) Bill, 2008 to amend the Life Insurance Corporation Act, 1956 in the Lok Sabha.

The proposed amendments are aimed at bringing improvement and revision of laws relating to the insurance business and deletion of redundant provisions. Certain provisions to provide Insurance Regulatory and Development Authority with flexibility to discharge its functions effectively are also incorporated.

5.8 **Universal Health Insurance Scheme**

5.8.1 The public sector general insurance companies have revised the Universal Health Insurance Scheme (UHIS) in September, 2008 wherein the premium has been reduced and the coverage of benefits under the Scheme has been expanded.

5.8.2 The salient features of the revised Scheme are as under:-

(i) **Reduction of Premium** - The premium rates have been reduced as under:-

Policy	Existing Premium	Revised Premium	GOI Subsidy
Individual	365	300	200
Upto 5 members	548	450	300
Upto 7 members	730	600	400

(ii) **Extension of Maternity benefits** - The maternity benefit has been extended in the revised Scheme subject to Rs.2,500/- for normal and Rs.5,000/- for caesarean delivery. This amount would also cover the medical expenses incurred in respect of the newborn child up to 3 months.

(iii) **Increase of upper age limit -** The upper age limit for coverage has been increased from the existing 65 years to 70 years to bring more families under the scope of the scheme.

(iv) **Inclusion of pre-existing diseases -** All pre-existing diseases are covered which were earlier excluded from the scope of the scheme.

(v) **Benefit of loss of wages -** In the revised Scheme, this benefit has been extended to the spouse of the insured.

6. Regional Rural Banks

6.1 Amalgamation of RRBs

The Government initiated a process for structural consolidation of RRBs by amalgamation of RRBs sponsored by the same bank within a State in September 2005. The amalgamated RRBs are expected to provide better customer service due to better infrastructure, computerization of branches, pooling of experienced work force, common publicity and marketing efforts, reap benefits of a large area of operation and enhanced credit exposure limits. As a result of the amalgamation, the number of RRBs have reduced from 196 to 86 as on date (27/1/2009) including one new RRB established on 26.3.2008 viz. Puduvai Bharthiar Grama Bank sponsored by Indian Bank in the UT of Puducherry.

6.2 Branches expansion of RRB

RRBs have been advised to undertake expansion of branches aggressively, especially to cover the uncovered districts and to open the branches in un-served areas. In pursuance, thereof, RRBs have opened 534 branches from April, 2007 to November, 2008.

6.3 Recapitalization of RRBs

Out of 27 RRBs having negative 22 RRBs (comprising 20 fully and 2 partly) have been recapitalized and the remaining 7 RRBs (comprising 5 non-recapitalized and 2 partly recapitalized) are expected to be recapitalized, on the contribution of their share by the State Government concerned.

6.4 Committee on HR Policy for RRBs

A Committee under the Chairmanship of Dr. Y.S.P. Thorat the then Chairman, NABARD was constituted in May, 2007 to review and make recommendations on H.R. policies in RRBs. The Report of the Committee was approved by the Government on 20.8.2008. The Report inter-alia addresses issues like categorization of RRBs on the basis of the number of the branches and business level, staffing pattern in headquarter, controlling offices and branches, career progression of RRB employees etc. Due to better promotional avenues in the revised staffing pattern it is expected that it will result into perceptible improvement in the performance of RRBs.

6.5 Incentivising Chairmen of RRBs

A scheme for incentivizing the Chairmen of RRBs on the pattern of Public Sector Banks has been formulated by GOI and has been communicated to NABARD. RRBs and Sponsor Banks have been advised by NABARD.

7. Debts Recovery Tribunals

7.1 Seven Presiding Officers for various Debts Recovery Tribunals and one Chairperson for Debts Recovery Appellate Tribunal were selected for the existing and anticipated vacancies arising upto 31.3.2009.

7.2 Two exercises were carried out for filling up the vacancies of deputation posts of Registrars, Assistant Registrars and Recovery Officers in Debts Recovery Tribunals/Debts Recovery Appellate Tribunals. A total of 57 selections were made in two exercises for the said posts.

7.3 The Debts Recovery Tribunals (Salaries, allowances and other terms and conditions of service of Presiding Officer) Rules, 1993 were amended consequent to the recommendations of the Sixth Central Pay Commission.