

# 13 Finance

THE Ministry of Finance is responsible for administration of finances of the Government. It is concerned with all economic and financial matters affecting the country as a whole including mobilisation of resources for development and other purposes. It regulates expenditure of the Government including transfer of resources to the states. This Ministry comprises four departments, namely, (i) Economic Affairs, (ii) Expenditure, (iii) Revenue, and (iv) Disinvestment.

## ECONOMIC AFFAIRS

The main divisions of the Department of Economic Affairs (DEA) are viz., (i) Finance Division, (ii) Budget Division, (iii) Banking and Insurance Division, (iv) Capital Market, (v) Bilateral Co-operation, (vi) Foreign Trade, (vii) Fund Bank Division, (viii) Fiscal Responsibility and Budget Management (FRBM) and Administration, (ix) Controller of Aid, Accounts and Audit, (x) Economic Division. The Department *inter alia* monitors current economic trends and advises the Government on all matters having bearing on internal and external aspects of economic management including, prices, credit, fiscal and monetary policy and investment regulations. This Department also supervises policies relating to Nationalised Banks, Life and General Insurance besides managing Government of India Mints, Currency Presses, Security Presses and Security Paper Mills. All the external financial and technical assistance received by India, except through specialised International organisations like FAO, ILO, UNIDO and except under international/bilateral specific agreement in the field of science and technology, culture and education are also monitored by this Department. The DEA is also responsible for preparation and presentation to the Parliament of Central Budget and the Budgets for the State Governments under President's Rule and Union Territory Administrations.

**Recent Developments:** The Budget (2005-06) highlights the need to maintain a growth rate of 7 to 8 per cent per annum as mandated by the National Common Minimum Programme (NCMP). The major initiative to reduce poverty and unemployment include higher allocation for National Rural Employment Guarantee Scheme (previously National Food for Work Programme) and increasing the coverage to 2.5 crore families under the Antyodaya Anna Yojana. The major areas identified for greater thrust include higher allocation for midday meal scheme, higher allocation to a non-lapsable fund called Prarambhik Shiksha Kosh created for funding the Sarva Shiksha Abhiyan programme, improving facilities for drinking water and sanitation, roadmap for agricultural diversification, development/strengthening of agricultural marketing infrastructure, continuation of National Agricultural Insurance Scheme (NAIS) for kharif and rabi 2005-06 and enhanced target under micro-finance for credit-linking from two lakh Self Help Groups (SHGs) to 2.5 lakh SHGs.

The budget redesignating the Micro Finance Development Fund as the "Micro Finance Development and Equity Fund" provides for an increased corpus of Rs 200 crore. The National Project for the repair, renovation and restoration of water bodies would include pilot project for 16 districts in nine States to cover nearly 700 water bodies, 20,000 hectares of additional land to be brought under irrigation, outlay of Rs

180 crore in 2005-06 for flood management and erosion control in the Ganga basin, Brahmaputra and Barak valleys and Rs 52 crore for the Farakka Barrage Project.

Recognising the need for greater manufacturing thrust, the budget proposed to launch a "Manufacturing Competitiveness Programme" to help small and medium enterprises. Higher allocation for Technology Upgradation Fund for the textile sector and increasing the coverage under rural electrification are other significant initiatives. The allocation for Indira Awas Yojana has been increased to Rs 2,750 crore in 2005-06 and about 15 lakh houses are proposed to be constructed during the year.

The Budget 2005-06 stressing the need for overall development of the country has conceived 'Bharat Nirman' to be implemented over a period of four years.

**The goals of Bharat Nirman are:** (a) to bring an additional one crore hectares under assured irrigation; (b) to provide road connectivity to all villages that have a population of 1000 (or 500 in hilly/tribal areas); (c) to construct 60 lakh additional houses for the poor; (d) to provide drinking water to the uncovered remaining 74,000 habitations; (e) to ensure electricity to the remaining 1,25,000 villages and electricity connection to 2.3 crore households; and (f) to give telephone connectivity to the remaining 66,822 villages.

The implementation of Bharat Nirman has gathered pace. It was therefore decided to extend larger budgetary support of this programme. Including the North East component, as against Rs 12,160 crore provided in 2005-06, the corresponding budgetary provision for the programme was placed at Rs 18696 for 2006-2007, an increase of 54 per cent.

The Budget 2006-07 mentioned that assured irrigation credit, diversification and creating a market for agricultural products are the thrust areas for the agriculture sector.

The programme for repair, renovation and restoration of water bodies is being implemented through pilot projects in various States. The design of the programme has been finalised in consultation with the States. In the first phase of the project 20,000 water bodies with a command area of 1.47 million hectares have been identified. The Budget 2006-07 also announced that the National Agricultural Insurance Scheme will be continued for *kharif* and *rabi* 2006-07. The public-private partnership model will be employed to set up model terminal markets in different parts of the country. The budget provided a sum of Rs 150 crore for 2006-07 under the National Horticulture Mission.

## **SOCIAL SECTOR PROGRAMMES**

During 2006-07, enhanced outlays have been provided for a number of initiatives/programmes in the social sectors. The bulk of the enhanced resources for the social sectors were earmarked for the UPA Government's eight flagship programmes: Sarva Siksha Abhiyan, Mid-day Meal Scheme, Rajiv Gandhi Drinking Water Mission, Total Sanitation Campaign, National Rural Health Mission, Integrated Child Development Services, National Rural Employment Guarantee Scheme and Jawaharlal Nehru National Urban Renewal Mission.

Education and health continued to enjoy primacy. For 2006-2007, the allocation for education has been enhanced by 31.5 per cent to Rs 24115 crore and for health and family welfare by 22.0 per cent to Rs 12546 crore.

On the eight flagship programmes, the total allocation in 2005-2006 was Rs 34927 crore. In the current fiscal year, the total allocation has been placed at Rs 50015 crore, representing an additionality of Rs 15088 crore or 43.2 per cent.

**Sarva Siksha Abhiyan (SSA) :** Recognising good performance, outlay for SSA has been increased from Rs 7156 crore in 2005-06 to Rs 1004 crore in 2006-07. Target is to construct 500,000 additional class rooms and to appoint 1,50,000 more teachers.

During 2006-07, it has been decided to transfer Rs 8746 crore to the Prarambhik Siksha Kosh from the revenues raised through the education cess.

**Mid-day Meal Scheme :** 12 crore children are so far covered under the Mid-day Meal Scheme, which is the largest school lunch programme in the world. Allocation for this programme has been enhanced from Rs 3010 crore to Rs 4813 crore in 2006-2007.

**Drinking Water and Sanitation :** A provision has been made for non-recurring assistance of Rs 213 crore in 2006-07 for setting up district-level water testing laboratories and field-level water testing kits. For Rajiv Gandhi National Drinking Water Mission the allocation has gone up from Rs 3645 crore last year to Rs. 4680 crore in the current year. Provision for the Rural Sanitation Campaign has also gone up from Rs 630 crore in the last year to Rs 720 crore in 2006-2007.

**National Rural Health Mission :** The National Rural Health Mission was launched on 12 April 2005. In 2006-07, more than 200,000 Associated Social Health Activists (ASHA) are likely to be fully functional and over 1000 Block level community health centres are expected to provide round-the-clock services. The allocation for NRHM has been enhanced from Rs 6553 crore in 2005-06 to Rs 8207 crore for the current year.

**Integrated Child Development Services (ICDS) :** The total allocation for ICDS has been increased from Rs 3315 crore to Rs 4087 crore.

**National Rural Employment Guarantee Scheme :** The Rural Employment Scheme is the primary instrument of the Government to combat rural unemployment and hunger poverty. For 2006-07, the total allocation for rural employment is of the order of Rs 14300 crore. Of this, Rs 11300 crore (including NER component) will be under NREG Act and Rs 3000 crore (including NER component) will be under SGRY. Since there is a legal guarantee for employment under the NREG Act, more funds will be provided based on actual need.

**Jawaharlal Nehru National Urban Renewal Mission :** The Jawaharlal Nehru National Urban Renewal Mission launched on 3 December 2005 has been provided a grant of Rs. 4595 crore. Apart from the four projects, including Mumbai metro rail and Bangalore metro rail, the projects under active consideration include projects in Maharashtra, Madhya Pradesh and Gujarat.

Planned urbanisation can act as a spur to growth, employment and better quality of life. The Government will actively promote the establishment of new towns, preferably on a specific industry, for example Information Technology, or a specific theme, for example education or health.

**National Social Assistance Programme :** Old age pensions are granted under the National Social Assistance Programme (NSAP) to destitute persons above the age of 65 years. Rs 75 per month provided earlier was highly inadequate. The quantum of assistance has been enhanced to Rs 200 per month. Rs 1430 crore has been provided for 2006-2007.

**Women and Children :** Gender Budgeting Cells have been set up in 32 Ministries and Departments so far.

**Scheduled Castes and Scheduled Tribes :** Keeping in view the commitment of the Government to the welfare of SCs and STs, the allocations for schemes benefiting only SCs and STs have been enhanced by 14.5 per cent during 2006-07 to Rs 2902 crore as compared to the previous year. Allocations for schemes with at least 20 per cent allocation for SCs and STs have been enhanced by 13.9 per cent to Rs 9690 crore.

The equity contribution to the National SC Finance and Development Corporation has been increased to Rs 37 crore and to the National Safai Karamchari Finance and Development Corporation to Rs 80 crore in 2006-2007.

**Twelfth Finance Commission:** The Twelfth Finance Commission was constituted by the President on 1 November 2002 to give recommendations on specified aspects of Centre - State fiscal relations during 2005-10. The Commission submitted its Report covering all aspects of its mandate on 17 December 2004.

The Commission has recommended a scheme of fiscal transfers that can serve the objectives of equity and efficiency within a framework of fiscal consolidation. The effort needed to achieve fiscal consolidation should be seen as the joint responsibility of the central and state governments. For achieving vertical and horizontal balance, consistent with the responsibilities of the two levels of governments in respect of providing public and merit goods and services, both the centre and the states need to raise the levels of revenues relative to their respective revenue bases, and exercise restraint in undertaking unwarranted expenditure commitments.

For the period of five years commencing from 1 April 2005, the Commission has recommended that the share of the states in the net proceeds of shareable central taxes shall be 30.5 per cent. For this purpose, additional excise duties in lieu of sales tax are treated as a part of the general pool of central taxes. If the tax rental arrangement is terminated and the states are allowed to levy sales tax (or VAT) on these commodities without any prescribed limit, the share of the states in the net proceeds of shareable central taxes shall be reduced to 29.5 per cent. If any legislation is enacted in respect of service tax after the Eighty-Eighth Constitutional Amendment is notified, it must be ensured that the revenue accruing to a State under the legislation should not be less than the share that would accrue to it, had the entire service tax proceeds been part of the shareable pool.

### **SOURCES OF REVENUE**

The main sources of the Union Tax revenue are customs duties, Union excise duties, service tax, corporate and income taxes. Non-tax revenues largely comprise interest receipts, including interest paid by the Railways, dividend and profits. The main heads of revenue in States are taxes and duties levied by the respective State Governments, share of taxes levied by the Union and grants received from the Union. Property taxes, octroi and terminal taxes are the mainstay of local finance.

### **TRANSFER OF RESOURCES**

Devolution of resources from the Union to the States is a salient feature of the system of federal finance of India. Apart from their share of taxes and duties, State Governments receive statutory and other grants as well as loans for various development and non-development purposes. The total amount of resources directly transferred to the states during 2001-02 onwards and estimates for 2004-05 and 2005-06 are shown in table 13.1. In addition, resources are also transferred by Central Government to the implementing agencies under various schemes without routing it through State budgets.

TABLE 13.1 : RESOURCES TRANSFERRED TO STATES

(Rs in crore)

Period	Taxes and Duties	Grants	Loans (Gross)	Total
2001-02	52,841	41,493	24,154	1,18,488
2002-03	56,122	42,136	27,720	1,25,978
2003-04	65,766	47,320	25,061	1,38,147
2004-2005(BE)	78,617	51,485	27,108	1,57,210
2005-06(RE)	94,959	77,274	1,179	1,73,412

With effect from 1 April 2002, a new system of transferring the entire net collections of small savings to States and Union Territories as loans from the Public Account is in vogue.

### ANNUAL BUDGET

An estimate of all anticipated receipts and expenditure of the Union for the ensuing financial year is laid before the Parliament. This is known as 'Annual Financial Statement' or 'Budget' and covers Central Government's transactions of all kinds, in and outside India, occurring during the preceding year, the year in which the Statement is prepared as well as ensuing year or the 'Budget Year' as it is known.

The presentation of Budget is followed by a general discussion on it in both the Houses of Parliament. Estimates of expenditure from the Consolidated Fund of India are placed before the Lok Sabha in the form of 'Demands for Grants'. All withdrawals of money from the Consolidated Fund are thereafter authorised by an Appropriation Act passed by the Parliament every year. Tax proposals of Budget are embodied in a Bill which is passed as the 'Finance Act' of the year. Estimates of receipts and expenditure are similarly presented by the State Governments in their legislatures before the beginning of the financial year and legislative sanction for expenditure is secured through similar procedure. Budgetary position of the Union from 2001-02 onwards is shown in table 13.2.

TABLE 13.2 : BUDGETARY POSITION

(Rs in crore)

	2001-02 Actual	2002-03 Actual#	2003-04 Actual#	2004-05 Revised Estimates	2005-06 Budget Estimates
1. Revenue Receipts	2,01,306	2,30,834	2,63,878	3,00,904	3,51,200
2. Revenue Expenditure	3,01,468	3,38,713	3,62,140	3,86,068	4,46,513
3. Revenue Deficit	1,00,162	1,07,879	98,262	85,164	95,313
4. Capital Receipts	1,62,500	1,80,531	2,07,490	1,83,862 \$	1,60,004\$
5. Recoveries of Loans	20,049	37,342*	84,218*	65,656*	12,000
Other Receipts					
6. Borrowings and other liabilities	1,42,451	1,43,189	1,23,272	1,18,206	1,48,004
7. Capital Expenditure	60,842	74,535**	1,09,228**	1,19,723**	67,831
8. Total Receipts	3,63,806	4,11,365	4,71,368	4,84,766	5,11,204
9. Total Expenditure	3,62,310	4,13,248	4,71,368	5,05,791	5,14,344

10. Draw down of cash balance	-1,496	1,883	0	21,025	3,140
11. Fiscal Deficit [(1+5)-9=6+10]	1,40,955	1,45,072	1,23,272	1,39,231	1,51,144

Note: The figures are exclusive of transfer of States' share in small savings collections.

# Based on provisional Actuals for 2002-03 and 2003-04.

\* Includes receipts from States on account of debt swap scheme.

\*\* Includes repayment to National Small Savings Fund

\$ Does not include Rs 65,481 crore in RE 2004-05 and Rs 80,500 crore in BE 2005-06 in respect of Market Stabilization Scheme, which will remain in the cash balance of the Central Government and will not be used for expenditure.

## PUBLIC DEBT

Public debt includes internal debt comprising borrowings inside the country like market loans, compensations and other bonds, treasury bills issued to finance State Governments, commercial banks and other parties as well as non-negotiable non-interest bearing rupees securities issued to the international financial institutions and external debt comprising loans from foreign countries, international financial institutions, etc. Table 13.3 gives an analysis of public debt and "other liabilities" at the end of selected years. The "other liabilities" include outstandings against the various small saving schemes, provident funds, securities issued to Industrial Development Bank of India, Unit Trust of India and nationalised banks, deposits under the special deposit schemes, reserve funds and deposits.

TABLE 13.3 : PUBLIC DEBT AND OTHER LIABILITIES  
OF GOVERNMENT OF INDIA  
(As at the end of March)

Item	2001-02	2002-03	2003-04 RE	2004-05 BE	2005-06
					BE
<b>A Public Debt</b>					
1. Internal Debt (i to vii)	9,13,061	10,20,689	11,41,706	12,70,272	14,06,525
i Market Loan	5,16,517	6,19,105	7,07,965	7,58,999	8,70,836
ii Other (include spl. Bearer Bonds)	61,635	1,14,375	1,93,551	2,77,213	2,98,375
iii 91 Days Treasury Bills	5,047	9,673	7,184	7,184	7,184
iv Special Securities issued to the RBI in conversion of Treasury Bills	1,01,818	61,818	0	0	0
v Special floating and other loans	22,551	23,617	22,139	21,388	21,631
vi Other special securities issued to RBI	3,222	3,596	3,596	1,867	1,868
vii Securities against small savings	2,02,271	1,88,505	2,02,271	2,03,621	2,06,631
2 External Debt*	71,546	59,612	46,124	54,359	63,215
<b>Total Public Debt (1+2)</b>	<b>9,84,607</b>	<b>10,80,301</b>	<b>11,87,830</b>	<b>13,24,631</b>	<b>14,69,740</b>
3 Other Liabilities @	3,81,801	4,78,900	5,48,848	6,56,883	7,62,146
<b>Total Public Debt and Other Liabilities</b>	<b>13,66,408</b>	<b>15,59,201</b>	<b>17,36,678</b>	<b>19,81,514</b>	<b>22,31,886</b>

\* These represent mainly non-negotiable, no interest bearing securities issued to international financial institutions like International Monetary Fund, International Bank for Reconstruction and Development and Asian Development Bank.

@ Comprises accruals under National Small Savings Fund, Provident Funds, special deposits on Non-Government provident funds and other reserve funds and deposits.

Note: External debt is at book value

RE : Revised Estimates

BE : Budget Estimates

### NEW INITIATIVES IN FISCAL MANAGEMENT

The persistent fiscal deficit and concomitant growth in the public debt burden have been identified as the most difficult challenges affecting the country's economic growth prospects. To check the potentially damaging impact of fiscal indiscipline on macro-economic parameters, the Parliament had passed the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 which came into force in July 2004. The FRBM Act, inter alia, mandates the Government to eliminate the revenue deficit by 2007-08. Through an amendment in 2004, the target year has been shifted to 2008-09. The FRBM Rules prescribe a minimum annual reduction in the revenue deficit by 0.5 per cent of GDP.

Other obligations of the Government under the FRBM Act, 2003 and FRBM Rules 2004; include (i) To reduce the fiscal deficit by an amount by at least 0.3 per cent of the GDP, so that the deficit is less than three per cent of GDP by the end of 2007-08 (ii) To limit Government guarantees to at most 0.5 per cent of the GDP in any financial year (iii) To limit additional liabilities (including external debt at current exchange rate) to 9 per cent of GDP in 2004-05, 8 per cent of GDP in 2005-06, 7 per cent of GDP in 2006-07, 6 per cent of GDP in 2007-08. (iv) Not to borrow directly from the Reserve Bank of India with effect from 1 April 2006 (v) To present three statements before the Parliament along with the annual budget viz., Macroeconomic Framework Statement, Fiscal Policy Strategy Statement and Medium-term Fiscal Policy Statement. (vi) To move towards greater fiscal transparency and start disclosing specified information such as areas of unrealised revenue, guarantees and asset latest by 2006-07.

The deficit targets in Budget 2005-06 are as follows:

S.No.	Item	Revised Estimates 2004-05	Budget Estimates 2005-06	Targets for 2006-07 2007-08	
1.	Revenue Deficit as percentage of GDP	2.7	2.7@	2.0	1.1
2.	Fiscal Deficit as percentage of GDP	4.5@@	4.3	3.8	3.1
3.	Tax revenue as percentage of GDP	9.8	10.6	11.1	12.6
4.	Total outstanding liabilities as percentage of GDP	68.8	68.6	68.2	67.3

@ The Budget 2005-06 includes a provision of Rs. 5,000 crore as compensation to States on account of shortfall in revenue that may arise due to implementation of State Level Value Added Tax w.e.f. 01.04.2005. But for the inclusion of this estimated expenditure, which the Central Government feels will not be required to be incurred and is being included as measure of assurance to the States, Revenue Deficit would have been 2.6 percent of GDP.

@@ This would have been 4.6 per cent of GDP, had the disinvestment proceeds not have been taken as a resource for financing the Fiscal Deficit.

### **EXTERNAL ASSISTANCE**

The Department of Economic Affairs (DEA) is the nodal department for procuring and coordinating external assistance from multilateral/ bilateral agencies. The State Governments and other government agencies who wish to avail themselves of external assistance can forward their proposals to the DEA through the Central sectoral Ministry. The Ministry/Department recommends the proposals/schemes for foreign assistance to the DEA after ensuring the plan priorities, budgetary clearance, administrative clearance, including clearances from Planning Commission at an appropriate stage. In this regard DEA has issued new guidelines for posing, implementation and monitoring of externally aided projects in May 2005.

For all externally aided projects, the loan agreements with the multilateral/ bilateral agencies are signed by the DEA (as the nodal department in the Central Government) since this is a subject on the Union list. The DEA is also responsible for all policy issues pertaining to external aid received by Government.

From FY 2005-06, the external assistance received in the form of grants from various multilateral and bilateral agencies is to be passed on to the States on back-to-back basis i.e., on the same terms and conditions on which it is received from the external funding agency.

During 2004-05 the total aid utilisation on Government and Non-Government account stands at Rs 17137.43 crore against Rs 17355.68 crore during 2003-04. As Additional Central Assistance to the States, Rs 8716.69 crore have been released during financial year 2004-05 as against Rs. 9324.36 crore during 2003-04.

Under the new policy announced on 20 September 2004 by DEA, bilateral development assistance will be accepted from all G-8 countries, namely, Japan, United Kingdom, United States of America, Canada, Germany, Italy, France, Russian Federation as well as from the European Commission. Further, such assistance will also be accepted from non G-8 European Union countries providing a minimum bilateral aid package of US \$ 25 million per annum to India. A simplified mechanism to process the project proposals of the NGOs, autonomous institutions and universities submitted through bilateral development partners expeditiously has been put in place.

### **INDO-US BILATERAL RELATIONS**

The US development assistance to India started in 1951 and till May 2004, the total assistance to India has been around US \$ 14 billion. The assistance mainly comprises of development projects, food commodities and technical assistance. The US assistance is mainly administered through the US agency for International Development (USAID). The assistance extended by USAID at present is entirely in the form of grants.

Initially, the main thrust of US assistance to India was on projects, which were designed to strengthen key institutions and transfer of resources for infrastructure programmes in agriculture and social forestry. Since mid-1980s, the priority has been diversified to include science and technology dimensions focusing specifically on the commercialisation of technology. The current four priority areas of development assistance are: economic growth including financial market reforms and state fiscal reforms, health, environment and energy disaster management. There are 11 ongoing projects supported by USAID in these areas.

### INDO-JAPAN BILATERAL RELATIONS

India has received a commitment from Government of Japan for Official Development Assistance (ODA) loan of Yen 134,466 million (Rs. 5600 crore approximately) for FY 2004-05. This is by far the largest ODA loan commitment of Government of Japan to India in a single financial year. This is 19.2 per cent of Japanese global ODA commitments for FY 2004-05. With this, the cumulative ODA loan from Government of Japan has reached Yen 2193.67 billion (Rs. 89406 crore approx. @ Yen 100 = Rs. 40.7) on commitment basis, till 31 March 2005. Notes were exchanged between Government of India and Government of Japan on 29 March 2005 for Japanese ODA loan of Yen 134,466 million (Rs. 5600 crore approximately) for eight projects as per the following details:

Project	Amount in Million Yen
Delhi Mass Rapid Transport System Project (VI)	19,292
North Karanpura Super Thermal Power Project (I)	15,916
Rajasthan Minor Irrigation Improvement Project	11,555
Tamil Nadu Afforestation Project (II)	9,818
Karnataka Sustainable Forest Management and Biodiversity Conservation Project	15,209
Ganga Action Plan Project (Varanasi)	11,184
Bangalore Water Supply and Sewerage Project Phase (II-I)	41,997
Uttar Pradesh Buddhist Circuit Development Project	9,495

The loan agreements for the above projects have also been signed on 31 March 2005.

In order to realise the full potential of their global partnership, the two countries decided on an eight-fold initiative and decided to make their utmost effort to implement this initiative, which comprises of measures for cooperation in eight key areas of interaction, namely: (i) enhanced and upgraded dialogue architecture, including strengthening of the momentum of high-level exchanges, launching of a High Level Strategic Dialogue and full utilisation of the existing dialogue mechanism; (ii) comprehensive economic engagement, through expansion of trade in goods and services, investment flows and other areas of economic cooperation, and exploration of an India-Japan economic partnership agreement; (iii) enhanced security dialogue and cooperation; (iv) science and technology initiative; (v) cultural and academic initiative and strengthening of people-to-people contacts to raise the visibility and profile of one country in the other; (vi) cooperation in ushering a new Asian era; (vii) cooperation in United Nations and other international organisations, including cooperation for the early realisation of U.N. reforms, particularly Security Council reform; and (viii) cooperation in responding to global challenges and opportunities.

The Japanese Grant Aid Programme got resumed with the signing of Exchange of Notes for the project "Improvement of Medical Equipment for Sir JJ Hospital and Cama and Albless Hospitals in Mumbai" on 28 August 2003 for JY 759,000,000. Another Exchange of Notes for JY 2,134,000,000 for the project for "Construction of Diarrheal Research and Control Centre at NICED, Kolkata" was signed on 25 June 2004.

## INDIA-UNITED KINGDOM BILATERAL RELATIONS

The United Kingdom has been providing bilateral development assistance to India since 1958. Their assistance to India, which is all in the form of grant, is extended through the Department for International Development (DFID). UK is currently India's largest bilateral development cooperation partner in terms of grants. In March 1999 it was decided that the grant assistance from UK would be passed on as grants to the recipient states for new projects in the areas of poverty alleviation. DFID's priority States in India are Andhra Pradesh, Madhya Pradesh, Orissa and West Bengal. However, DFID is also providing assistance to other states like UP, Bihar, Chhattisgarh and Maharashtra, etc., through projects implemented by NGOs.

The UK assistance is available in the form of Financial Assistance (routed through GoI budget) and Technical cooperation (TC), which includes direct payment by DFID for consultancy services, experts, training, etc. In March 2004, DFID launched its new Country Plan in India for 2004-08, entitled "India Country Plan-Partnership for Development". DFID's development cooperation assistance flows to mutually agreed projects in various sectors such as education, slum improvement, health and family welfare, forestry, etc. There are 28 on-going projects under implementation with DFID assistance in this areas that includes Centrally Sponsored Schemes (CSS) such as Sarva Siksha Abhiyan and National AIDS Control Programme (NACP). They will also be involved in another Centrally Sponsored Scheme, i.e., Reproductive and Child Health (RCH)-II.

## INDO-EUROPEAN COMMISSION BILATERAL RELATIONS

The European Commission (EC) has been extending assistance to India since 1976. The EC assistance to India is entirely in the form of grant and is currently focused on the areas of environment, public health and education.

A description of the various development co-operation programmes being implemented by the EC in India are as under:

1. **Sarva Shiksha Abhiyan:** Education sector has the largest outlay in EC's development assistance to India. The District Primary Education Programme (DPEP), implemented partly with EC assistance of Euro 150 million, came to an end in December 2002. As an extension of this programme, EC has made a commitment of Euro 200 million to the Sarva Shiksha Abhiyan being implemented by the Government of India for the development of primary education covering 42 districts in the country. First Tranche of Euro 30 million has already been utilised under the programme. Second Tranche of Euro 24 million has been approved by the EC during February, 2005. The other development partners, viz., IDA/World Bank and DFID, UK are also providing assistance of Euro 390 million and Euro 270 million respectively for this programme.
2. **Support to Health and Family Welfare Sector Development:** The EC supported Health and Family Welfare Sector Development Programme, under their Sector Investment Programme (SIP), is being implemented with the aim of reforming the health care system in India focusing primary health care services. The SIP is an integral part of the Government of India's National Family Welfare Programme together with Reproductive and Child Health (RCH) and Safe Motherhood and other schemes. EC's assistance for this project is Euro 240 million.

3. **State Partnership Programme:** EC has now shifted its development co-operation strategy from sector based approach to a partnership approach with one or two Indian States in order to deploy bulk of their resources in these States for health, education and environment programmes. Accordingly, the States of Chhattisgarh and Rajasthan have been mutually identified by the EC and Government of India for EC's State Partnership Programme, for which EC has committed Euro 160 million.
4. **The European Union (EU)-India Scholarship Programme :** ERASMUS MUNDUS- A Financing Agreement for Euro 33 million has been signed with the EC for EU-India Scholarship Programme which will be utilised to fund around 1,000 scholarships to pursue higher education (masters courses) in various universities of the EU by the Indian students during the period of 2005-09.

#### **INDIA-SWITZERLAND BILATERAL RELATIONS**

Swiss assistance has been in the form of grants and has been provided for local costs as well as technical assistance. In the past, Switzerland has also provided mixed credit comprising 40 per cent grant and 60 per cent loan for power sector project.

The Neriya Mangalam Hydro Electricity Project of Kerala State Electricity Board (KSEB) has been implemented under the Swiss Mixed Credit Agreement dated 25 June 1991. Presently, Swiss assistance in India is mainly directed towards NGO projects. During the last year Switzerland has supported several NGO projects in India.

#### **INDO-ITALY BILATERAL RELATIONS**

Italy has been providing concessional assistance to India since 1981. During the Indo-Italian Cooperation meeting held on 5 June 1996, the Italian side committed 100 billion Italian Lira under this commitment. The following two projects are covered under this commitment:

**(i) Credit Line to NSIC :** 50 billion Lira of the committed sum of Lira 100 billion was allocated for establishing an open credit line for financing supplies of capital goods and related technical assistance for the development of the Indian Small and Medium Enterprises and was provided to National Small Industries Corporation Ltd. (NSIC). The NSIC signed the Financial Convention for the first tranche of 10 billion Lire on 21 March 2000. Regarding the balance of 40 billion Lira (second tranche), it was decided not to avail of the balance in view of the Government of India's policy prevailing prior to September 2004 not to take any development assistance from smaller bilateral partners, including Italy.

**(ii) Water Supply and Solid Waste Management Project in West Bengal:** Lire 50 billion is proposed to be used for financing for which DEA has exchanged a Note Verbale on 5 February 2003 with Embassy of Italy. As per revised proposal, the Italian loan for this project would be available at an interest rate of 0.1 per cent per annum with repayment period of 38 years, including a grace period of 17 years.

The Government has since revised the policy on bilateral development assistance. In view of the revised policy of GOI to accept assistance from Italy, NSIC has requested DEA to reconsider the proposal to avail of the balance amount of Lire 40 billion.

### INDO-FRANCE BILATERAL RELATIONS

Aid policy with bilateral partners was reviewed. French aid is tied to imports of French goods and services. French commitments are made for specific projects where contracts are awarded to French companies. Local costs are not financed under French aid.

The policy announcement of 20 September 2004 has included France (by virtue of being a G-8 country) in the list of countries from which development assistance would be acceptable to India. However, while India welcomes development assistance from France, it would still not receive tied aid. It has been clarified to France that it may not be possible for India to accept tied aid; even if it is bundled in a package with an untied component.

### INDO-DENMARK BILATERAL RELATIONS

As per Government of India's new policy on external assistance, there will be no further bilateral development cooperation at Government level with Denmark. The Government of Denmark has also decided to phase out its assistance even from the ongoing projects by the end of 2005. The Government of India has concurred with this decision. Consequently, no further disbursements on Indo-Danish projects are foreseen after 31 December 2005. India has re-paid all Danish loans and India has no further debt liabilities in respect of Denmark.

### INDO-GERMAN BILATERAL RELATIONS

The Federal Republic of Germany is one of the largest European donor and providing both financial and technical assistance to India since 1958. Financial assistance has been provided mainly as soft loan, composite loan (soft loan combined with commercial loan) as well as grants routed through KfW, German Government's Development Bank. There are 32 Financial Cooperation (FC) and 18 Technical Cooperation (TC) ongoing projects. Total assistance involved in the ongoing FC and TC projects is Euro 987.349 million and Euro 49.98 million respectively. There are 18 FC and 31 TC committed pipeline projects and total assistance involved is Euro 661.23 million and Euro 63.755 million respectively.

The Indo-German Annual Negotiations-2004 was held in July 2004, in which commitment of Euro 123.53 million was made (including Euro 15.53 million from the reprogrammed funds). The following Financing/ Loan Agreements have been signed with KfW (Germany) under Indo-German Bilateral Development Cooperation during the year 2004-05:

S.No	Project	Amount in Million Euro
1	Pulse polio programme (5th, 6th and 7th phase)	26.7 (grant)
2	Karnataka Secondary Level Hospital Phase - II	14.3 (grant)
3	Vijayawada Power Project in Andhra Pradesh	281.057

An agreement between Government of Federal Republic of Germany and the Government of India regarding Technical Cooperation was signed in respect of the commitments made by Germans for the year 2004 worth Euro 22.905 million.

### BANKING

The first bank of limited liability managed by Indians was Oudh Commercial Bank founded in 1881. Subsequently, Punjab National Bank was established in 1894.

Swadeshi movement, which began in 1906, encouraged the formation of a number of commercial banks. Banking crisis during 1913 -1917 and failure of 588 banks in various States during the decade ended 1949 underlined the need for regulating and controlling commercial banks. The Banking Companies Act was passed in February 1949, which was subsequently amended to read as Banking Regulation Act, 1949. This Act provided the legal framework for regulation of the banking system by RBI.

The largest bank - Imperial Bank of India - was nationalised in 1955 and rechristened as State Bank of India, followed by formation of its 7 Associate Banks in 1959. With a view to bringing commercial banks into the mainstream of economic development with definite social obligations and objectives, the Government issued an ordinance on 19 July 1969 acquiring ownership and control of 14 major banks in the country. Six more commercial banks were nationalised from 15 April 1980.

As certain rigidities and weaknesses were found to have developed in the banking system during the late eighties, the Government of India felt that these had to be addressed to enable the financial system to play its role in ushering in a more efficient and competitive economy. Accordingly, a high-level Committee on the Financial System (CFS) was set up on 14 August 1991 to examine all aspects relating to the structure, organisation, functions and procedures of the financial systems. Based on the recommendations of the Committee (Chairman: Shri M.Narasimham), a comprehensive reform of the banking system was introduced in 1992-93.

A high-level Committee, under the Chairmanship of Shri M.Narasimham was constituted by the Government of India in December 1997 to review the record of implementation of financial system reforms recommended in 1991 by the Committee on Financial System and chart the reforms necessary in the years ahead. The Committee submitted its report to the Government in April 1998. Some of the recommendations of the Committee, on prudential accounting norms, particularly in the areas of Capital Adequacy Ratio, classification of government guaranteed advances, provisioning requirements on standard advances and more disclosures in the Balance Sheets of banks were accepted and implemented. Recent major initiatives undertaken for strengthening the financial sector in pursuance to the recommendations of the above Committee relate to guidelines to banks on Asset-Liability Management and integrated risk management systems, compliance with Accounting Standards, consolidated accounting and supervision, fine-tuning of prudential norms for income recognition, asset classification and provisioning for NPAs, etc. The guidelines on setting-up of Off-shore Banking Units in Special Economic Zones, Fair Practices Code for Lenders, Corporate Governance, Anti-Money Laundering measures, etc., are other important developments in the banking sector. The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 is expected to facilitate NPA management by banks more effectively.

In 1993, in recognition of the need to introduce greater competition, new private sector banks were allowed to be set up in the banking system. These new banks had to satisfy certain requirements. Further, revised guidelines for entry of new banks in private sector were issued on 3 January 2001.

The applications for setting up new banks received within the stipulated period were scrutinised by RBI and "in principle" approvals were issued to two entities on 7 February 2002. Kotak Mahindra Bank Ltd, on satisfactory completion of other

formalities, was granted banking licence on 6 February 2003. It commenced operations from 22 March 2003 and subsequently was included in the Second Schedule of the Reserve Bank of India Act, 1934 w.e.f 12 April 2003.

On satisfactory completion of all formalities, a licence was granted to “Yes Bank Ltd” on 24 May 2004. The bank commenced its operations from 16 August 2004 and was included in the second Schedule of the RBI Act, 1934 on 21 August 2004.

A draft comprehensive policy framework for ownership and governance in private sector banks was put in the public domain on 2 July 2004 for discussion and feedback. After taking into consideration the feedback received from all concerned and in consultation with Government of India, RBI issued detailed Guidelines on ownership and governance in private sector banks on 28 February 2005. The underlying principles of the guidelines inter alia are to ensure that the all banks in the private sector have a network of Rs.300 crore, ultimate ownership and control of private sector banks is well diversified, important shareholders (i.e., shareholding of 5 per cent and above) are ‘fit and proper’ as laid down in the guidelines dated 3 February 2004 and the directors and the CEO who manage the affairs of the bank are ‘fit and proper’ as laid down in the circular dated 25 June 2004. The guidelines also provide for restrictions on cross holding of 5 per cent or above by one bank/FI in another bank/FI as laid down in the circular dated 6 July 2004 and observance of sound corporate governance principles. The RBI held discussions with banks to review the position.

### **RESERVE BANK OF INDIA**

The Reserve Bank of India (RBI) was established under the Reserve Bank of India Act, 1934 on 1 April 1935 and nationalised on 1 January 1949. The Bank is the sole authority for issue of currency in India other than one-rupee coins and subsidiary coins. As the agent of the Central Government, the Reserve Bank undertakes distribution of one-rupee coin as well as small coins issued by the Government. The Bank acts as banker to the Central Government, and State Governments by virtue of agreements entered into with them. The Reserve Bank also handles the borrowing programme of the Central and State Governments. It formulates and administers monetary policy with a view to ensuring price stability while promoting higher production in the real sector through proper deployment of credit. The RBI plays an important role in maintaining orderly conditions in the foreign exchange market and acts as an agent of the Government in respect of India’s membership of International Monetary Fund. The Reserve Bank also performs a variety of developmental and promotional functions. The Reserve bank also regulates and supervises commercial banking system, urban co-operative banks and non-banking financial sector.

### **COMPOSITION OF BANKING SYSTEM**

Commercial Banking System in India consisted of 218 scheduled commercial banks (including foreign banks) as on 31 March 2006. Of the scheduled commercial banks, 161 are in public sector of which 133 are regional rural banks (RRBs) and these account for about 75.2 per cent of the deposits of all scheduled commercial banks. The regional rural banks were specially set up to increase the flow of credit to small borrowers in the rural areas. The remaining 28 banks, other than RRBs, in the public sector consist of 19 nationalised banks, 8 banks in SBI group and IDBI Ltd. and transact all types of commercial banking business. Some important indicators in regard to progress of commercial banking in India since 1999 are given in Table 13.4.

Amongst the public sector banks, as on 31 March 2006, the nationalised banks (including IDBI Ltd.) group is the biggest unit with 33,868 offices, deposits aggregating Rs 10,13,664 crore and advances of Rs 7,21,066 crore. The State Bank of India group (SBI and its seven Associates) with 13,820 offices, deposit aggregating Rs 4,90,375 crore and advances Rs 3,50,961 crore is the second largest. The nationalised banks accounts for 67.3 per cent of aggregate banking business (aggregate of deposits and advances) conducted by the public sector banks (excluding RRBs) and 48.0 per cent of the aggregate business of all scheduled commercial banks. The SBI and its associates as a group accounts for 32.7 per cent of aggregate banking business conducted by the public sector banks (excluding RRBs) and 23.3 per cent of the aggregate business of all scheduled commercial banks (Source: Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks – March 2006).

### DEPOSIT MOBILISATION AND DEPLOYMENT

There has been a substantial increase in the deposits of scheduled commercial banks in the post-nationalisation period. At the end of June 1969, deposits of these banks aggregated to only Rs.4,646 crore. As on 31 March 2006, this amount has increased to Rs 20,93,042 crore. Deposit amount with public sector banks was Rs 3,871 crore in June 1969. As on 31 March 2006, this amount stood at Rs 15,74,664 crore (Source: Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks – March 2006).

Deposits mobilised by the banks are utilised for: (i) loans and advances; (ii) investments in government and other approved securities in fulfillment of the liquidity stipulations; and (iii) investment in commercial paper, shares, debentures, etc., up to a stipulated ceiling. There has been a significant increase in the investments of banks in government and other approved securities from Rs.1,361 crore in June 1969 to Rs.7,17,454 crore (provisional) as at the end of March 2006. The Bank Credit of scheduled commercial banks have grown from Rs.3,599 crore in June 1969 to Rs.15,07,077 crore as at the end of March 2006 (source: Reserve Bank of India Bulletin – August 2006).

TABLE 13.4 : PROGRESS OF COMMERCIAL BANKING IN INDIA

S. No.	Item	March 1999	March 2000	March 2001	March 2002	March 2003	March 2004	March 2005
1.	Number of Commercial Banks	303	297	301	298	294	291	288
	(a) Scheduled Commercial Banks	302	297	296	294	289	286	284
	of which : Regional Rural Banks	196	196	196	196	196	196	196
	(b) Non-Scheduled Commercial Banks	1	-	5	4	5	5	4
2.	Number of Bank Offices in India <sup>^</sup>	64,939	65,412	65,919	66,190	66,535	67,188	68355
3.	Population per office (in thousands)	15	15	15	16	16	16	16
4.	Deposits of Scheduled Commercial Banks in India (Rs crore)	7,14,025@	8,51,593@	9,89,141#	11,31,187#	13,11,761#	15,42,284&	1732858&
5.	Credit of Scheduled Commercial Banks in India (Rs crore)	3,68,837	4,54,0695	29,272	6,09,053	7,46,432	8,65,594	1124300
6.	Per Capita Deposits of Scheduled Commercial Banks (Rs)	7,237	8,498	9,758	10,994	12,554	14,550	16091

7. Per Capita Credit of Scheduled Commercial Banks (Rs)	3,738	4,531	5,221	5,919	7,143	8,166	10440
8. Deposits of Scheduled Commercial Banks as percentage of National Income (at current prices)	49.8	53.5	58.9	60.7	65.3	68.5	68.3

@ Includes Resurgent India Bonds (RIB) (Rs 17,945 crore)

# Includes Resurgent India Bonds (RIB) (Rs 17,945 crore) and also India Millennium Deposits (IMD) (Rs 25,662 crore)

& Includes India Millennium Deposits (IMD) (Rs 25,662 Crore)

^ Excludes Administrative Offices

Source : Basic Statistical Returns of Scheduled Commercial Banks in India, Volume-34, (March 2005)

### ADVANCES TO PRIORITY SECTOR

Extension of credit to small borrowers in the hitherto neglected sectors of the economy has been one of the key tasks assigned to the public sector banks in the post-nationalisation period. To achieve this objective, banks have drawn up schemes to extend credit to small borrowers in sectors such as agriculture, small-scale industry, road and water transport, retail trade and small business which traditionally had very little share in the credit extended by banks. To improve and enhance the flow of credit to the priority sector including agriculture and small-scale industries sectors, the following policy initiatives were taken:

- It was decided to treat investments made by banks in mortgage backed securities (MBS) as direct lending to housing within the priority sector lending subject to certain conditions;
- Investments made by banks on or after 1 April 2005 in the special bonds issued by certain specified institutions would not be eligible for classification under priority sector lending and such investments which have already been made/to be made by banks up to 31 March 2005 would cease to be eligible for classification under priority sector lending in a phased manner;
- Investment limit in plant and machinery for seven items belonging to sports goods, which figure in the list of items reserved for manufacture in the Small-Scale Industries (SSI) Sector, has been enhanced from Rs 1 crore to Rs. 5 crore for purpose of classification under priority sector advances;
- Advances granted by banks to farmers, through the produce marketing schemes under priority sector lending, against pledge/ hypothecation of agricultural produce including warehouse receipts for a period not exceeding 12 months was increased from Rs 5 lakh to Rs 10 lakh;
- Investments made by banks on or after 1 July 2005 in venture capital shall not be eligible for classification under priority sector lending while such investments already made up to 30 June 2005 would not be eligible for classification under priority sector lending with effect from 1 April 2006;
- Fifty per cent of the credit outstanding under loans for general purposes under General Credit Cards (GCC) would be eligible for classification as indirect finance to agriculture within the priority sector; and
- Loans to power distribution corporations/companies, emerging out of bifurcation/restructuring of State Electricity Boards (SEBs), for reimbursing

the expenditure already incurred by them for providing low tension connection from step-down point to individual farmers for energising their wells, may also be classified as indirect finance to agriculture.

Amount outstanding under priority sector lending by public sector banks during the period June 1969 to March 2006 increased from Rs 441 crore to Rs 4,10,379 crore and accounted for 40.3 per cent of net bank credit as on the last reporting Friday of March 2006.

### **CREDIT FLOW TO WEAKER SECTIONS**

With a view to augmenting credit flow to small and poor borrowers, commercial banks were advised by the Reserve Bank of India to provide at least 10 per cent of their net bank credit or 25 per cent of their priority sector advances to weaker sections comprising small and marginal farmers, landless labourers, tenant farmers and share croppers, artisans, village and cottage industries where individual credit limits do not exceed Rs. 50000, beneficiaries of Government sponsored schemes such as the Swarnjayanti Gram Swarozgar Yojana (SGSY) for rural poverty, Swarna Jayanti Shahari Rozgar Yojana (SJSRY) and the Scheme of Liberation and Rehabilitation of Scavengers (SLRS), beneficiaries of the Differential Rate of Interest (DRI) scheme and scheduled castes and scheduled tribes. With a view to bringing in urban poor into formal financial system, banks have been advised to grant loans to distressed urban poor to prepay their debt to non-institutional lenders, against appropriate collateral or group security, subject to the guidelines to be approved by their Boards of Directors. Such loans to urban poor may be classified under weaker sections within the priority sector. As on the last reporting Friday of March 2006, the amount of outstanding advances extended by public sector banks to the weaker sections under the priority sector amounted to Rs 78,374 crore and accounted for 7.7 per cent of their net bank credit.

### **CREDIT FLOW TO AGRICULTURE**

Banks were initially given a target of extending 15 per cent of the total advances as direct finance to the agriculture sector to be achieved by March 1985. This target was subsequently raised to 18 per cent to be achieved by March 1990. In terms of the guidelines issued by Reserve Bank of India in October 1993, both direct and indirect advances for agriculture are taken together for assessing the target of 18 per cent, with the condition that for the purpose of computing their performance in lending to agriculture, lendings for indirect agriculture should not exceed one fourth of the total agriculture lending target of 18 per cent of net bank credit so as to ensure that the focus of banks on direct lending to agriculture is not diluted. However, all agricultural advances under the categories 'direct' and 'indirect' will be reckoned in computing performance under the overall priority sector target of 40 per cent of the net bank credit. As at the end of March 2006, public sector banks had extended Rs 1,54,900 crore, constituting 15.22 per cent of the net bank credit, to the agriculture sector. Private sector banks extended Rs. 36,185 crore to agriculture as at the end of March 2006 constituting 13.5 per cent of net bank credit.

### **ADVANCES TO SC/ST BORROWERS**

People belonging to the scheduled castes and scheduled tribes have been recognised as the most vulnerable sections. Banks have been asked to make special efforts to assist them with adequate credit to enable them to undertake self-employment ventures to acquire income generating capital assets so as to improve their standard of living.

At the end of March 2006, the total outstanding loan extended to scheduled castes/ scheduled tribes by public sector banks under priority sector lending was Rs 22,666 crore in 84.38 lakh borrowal accounts.

#### **DIFFERENTIAL RATE OF INTEREST SCHEME**

Under the Differential Rate of Interest (DRI) Scheme, introduced in 1972, public sector banks are required to fulfil the target of lending of at least one per cent of the total advances as at the end of the preceding year to the weakest of the weak sections of the society at an interest rate of four per cent per annum. The scheme covers poor borrowers having an annual family income of not more than Rs. 6,400 in rural areas and Rs. 7,200 in other areas and not having more than 2.5 acres of unirrigated or one acre of irrigated land. They are given credit support of Rs. 6,500 as term loan and working capital loan for productive ventures. The public sector banks had an outstanding of DRI credit amounting to Rs 490 crore as at the end of March 2006.

#### **SWARNJAYANTI GRAM SWAROZGAR YOJANA (SGSY)**

The Union Ministry of Rural Development launched a restructured poverty alleviation programme, Swarnjayanti Gram Swarozgar Yojana (SGSY) with effect from 1 April 1999, which has replaced IRDP and its allied schemes viz., Training Of Rural Youth For Self Employment (TRYSEM), Development of Women and Children in Rural Areas (DWCRA), Supply Of Improved Toolkits to Rural Artisans (SITRA), Ganga Kalyan Yojana (GKY) and Million Wells Scheme (MWS).

The scheme aims at establishing a large number of micro enterprises in the rural areas of the country. The objective of the Scheme is to bring every assisted family above the poverty line in three years by providing them income generating assets through a mix of bank credit and government subsidy. The monthly income from the activity to be undertaken should not be less than Rs.2000, net of repayment to the bank, at least in the third year.

The SGSY is a holistic programme covering all the aspects of self employment such as organisation of poor into Self Help Groups, training, credit, technology, infrastructure and marketing. The scheme is funded on 75:25 basis by centre and states and is implemented by DRDAs through Panchayat Samities. Major share of assistance is for 4-5 key activities identified at the block level.

The year 2005-06 was the seventh year of implementation of the scheme. A total number of 12,07,078 swarozgaris received bank credit amounting to Rs 1125.42 crore (and Government subsidy amounting to Rs 375.09 crore) under the Swarna Jayanti Gram Swarozgar Yojana (SGSY) during the year 2005-06. Of the Swarozgaris assisted, 4,26,000 (35.29 per cent) were Scheduled Castes and Scheduled Tribes (SC/ ST), 608756 (50.43 per cent) were women and 20788 (1.72 per cent) were physically handicapped.

#### **SWARNA JAYANTI SHAHARI ROZGAR YOJANA**

The Swarnajayanti Shahari Rozgar Yojana (SJSRY) is in operation from 1 December 1997 in all urban and semi-urban towns of India. Among other components, the scheme has two sub-schemes where bank credit is involved, namely, Urban Self Employment Programme (USEP) and Development of Women and Children in Urban Areas (DWCUA). The beneficiaries under the scheme are identified by the urban local bodies on the basis of house-to-house survey. Under the scheme, women are to be assisted to the extent of not less than 30 per cent, disabled at 3 per cent and SC/ STs at least to the extent of the proportion of their strength in the local population. The

scheme is funded on a 75:25 basis between the Central and the State Governments.

During the year 2005-06, disbursements amounting to Rs 183.61 crore were made in 55,023 cases (out of 68579 applications sanctioned). Of the above, Rs 49.68 crore were disbursed to 14,674 SC/STs, Rs 100.25 crore were disbursed to 12,494 women and Rs 4.12 crore were disbursed to 919 disabled persons during the year 2005-06.

### **PRIME MINISTER'S ROZGAR YOJANA (PMRY)**

The scheme was launched on 2 October 1993 and initially was in operation in urban areas. From 1 April 1994 onwards the scheme is being implemented throughout the country. The objective of the scheme is to provide self-employment opportunities to educated unemployed youth in the age group of 18 to 35 years. In North-Eastern states the eligible age group is from 18-40. There is a 10-year relaxation for SC/ST, ex-servicemen/ physically handicapped and women, in the upper age limit. To be eligible for assistance under the scheme the family income of the beneficiaries shall not exceed Rs. 40000 per annum and income of parents of the beneficiaries also shall not exceed Rs. 40000. The banks have been allowed to make parents/Head of the family of unmarried girl as co-borrower, with effect from 21 November, 2002. The borrower should be the resident of the area for more than 3 years. He should have passed at least eighth standard. It has also been provided that the margin money and subsidy amount would be 20 per cent of the project cost. Ceiling on subsidy amount will be Rs 7500 in States/ UTs other than in the North Eastern Region. In the seven states in North East the ceiling on subsidy amount payable will be Rs 15000. This has been extended to Sikkim, Himachal Pradesh, Jammu and Kashmir and Uttaranchal. Hence the margin to be brought in by the borrower will vary from 5 per cent to 16.25 per cent of the project cost. All economically viable activities including agricultural and allied activities but excluding direct agricultural operations like raising of crops/ purchase of manure etc. are now being covered under the scheme. Projects up to Rs.1 lakh in business sector and up to Rs 2 lakh in other sectors will be eligible for finance by banks. In case of partnership firm projects up to Rs 10 lakh can be undertaken and loan amount will be to the extent of individual admissibility. Residency criteria for married men in Meghalaya has been relaxed in line with the married women in the rest of the country with effect from 11 August 2003.

SHGs are considered eligible for financing under the Prime Minister's Rozgar Yojana (PMRY), effective from 8 December 2003 (terms modified on 30 July 2004) provided all members individually satisfy the eligibility criteria laid down and total membership does not exceed twenty. There is also a ceiling on the loan amount. During 2004-05 banks sanctioned loans amounting to Rs 1923 crore in 2.98 lakh accounts, while disbursements amounted to Rs 1542 crore in 2.48 lakh accounts (data provisional). Further during 2005-06 banks sanctioned loans amounting to Rs 1987 crore in 3.10 lakh accounts, while disbursements amounted to Rs 1521 crore in 2.49 lakh accounts.

### **HOUSING FINANCE**

The current focus of RBI's regulation with regard to Housing Finance is to ensure orderly growth of housing loan portfolio of banks.

**(i) Risk Weight on Housing Finance :** Taking into account rapid expansion in credit to housing sector, banks extending housing loans to individuals against the mortgage of residential housing properties were required to assign risk weight of 75 per cent on

such loans, which are fully secured by mortgage of residential properties and investments in Mortgage Backed Securities (MBS) of Housing Finance Companies (HFCs), recognised and supervised by NHB. The risk weight for commercial real estate exposure has been raised to 125 per cent on 26 July 2005 and further to 150 per cent on 25 May 2006.

**(ii) Adherence to National Building Code :** In view of the importance of safety of buildings especially against natural disasters banks were advised to adhere to the National Building Code (NBC) formulated by the Bureau of Indian Standards (BIS).

### **REGIONAL RURAL BANKS**

Regional Rural Banks were set up to take banking services to the doorsteps of rural masses especially in remote rural areas with no access to banking services. These banks were originally intended to provide institutional credit to the weaker sections of the society called 'target groups'. The Regional Rural Banks (RRBs) are conceived as institutions that combine the local feel and familiarity with rural problems, which the co-operatives possess, and the degree of business organisation as well as the ability to mobilise deposits, which the commercial banks possess. The banks were also intended to mobilise and channelise rural savings for supporting productive activities in the rural areas. However, with effect from April 1997, the concept of priority sector lending was made applicable to RRBs. The interest rates on term deposits offered and interest rates on loans charged by RRBs have also been freed.

The credit outstanding of all the 196 RRBs stood at Rs 32,870 crore as at the end of March 2005 and Rs 62,143 crore were mobilized as deposits by RRBs till that date. RRBs which comply with certain prescribed conditions are also permitted to open and maintain non-resident accounts in Rupees.

With a view to consolidating and strengthening RRBs, the Government of India initiated, in September 2005, the process of amalgamation of RRBs, in a phased manner. Till 31 August 2006, 134 RRBs have been amalgamated to form 42 new RRBs, sponsored by 18 banks in 16 states, bringing down the total number of RRBs to 104 from 196. The amalgamation process is still continuing.

### **SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA**

The Small Industries Development Bank of India (SIDBI) was established as a principal financial institution for the promotion, financing and development of industries in the small scale sector. SIDBI started its operations from 2 April 1990 and is engaged in providing assistance to the small-scale industrial sector in the country through other institutions like State Financial Corporations, Commercial Banks and State Industrial Development Corporations. The Financial assistance sanctioned and disbursed aggregated to Rs 11975 crore and Rs 9100 crore, respectively, during 2005-06. Net profit after tax stood Rs 270 crore during 2005-06.

### **EXPORT-IMPORT BANK OF INDIA**

The Export Import Bank of India (EXIM Bank) was established for financing, facilitating and promoting foreign trade in India. During the year ended 31 March 2006, EXIM Bank sanctioned loans of Rs 20489 crore while disbursements amounted to Rs 15039 crore. Profit (after tax) of the Bank for the period 2005-06 amounted to Rs 271 crore.

### **NATIONAL HOUSING BANK**

The National Housing Bank (NHB), the apex institution of housing finance in India, was set up as wholly owned subsidiary of the Reserve Bank of India. The bank started its operations from July 1988. The authorised paid-up capital of NHB stood at Rs 450 crore and the reserves and surplus were Rs 1201.32 crore as on 30 June 2005. The profit after tax stood at Rs 44 crore during 2004-05.

The NHB is the regulator and supervisor of Housing Finance Companies (HFCs) in the country. Total refinance extended by NHB to all housing finance institutions including Housing Finance Companies, commercial banks and co-operative sector institutions stood at Rs 7500 crore as on 30 June 2005.

The bank monitors the performance of the Golden Jubilee Rural Housing Finance Scheme being implemented through Scheduled Banks, HFCs and Co-operative Sector Institutions. Against a target of 2.5 lakh dwelling units for the year 2004-05, 2.58 lakh units had been financed. For the Year 2005-06, target of financing 2.75 lakh units has been set by Government of India.

### **NABARD**

The National Bank for Agriculture and Rural Development (NABARD) came into existence on 12 July 1982. It was established for providing credit for promotion of agriculture, small-scale industries, cottage and village industries, handicrafts and other allied economic activities in rural areas with a view to promoting integrated rural development and securing prosperity of rural areas. Paid-up capital of Nabard is stood at 2000 crore as on 31 March, 2006. The profit after tax stood at Rs 857 crore during year 2005-2006.

### **INDIAN BANKS ABROAD**

As on 30 June 2006, eighteen Indian banks- twelve from the public sector and six from the private sector- had operations overseas, which had their presence in 47 countries with a network of 111 branches (including offshore units), 6 joint ventures, 18 subsidiaries and 34 representative offices. Bank of Baroda had highest concentration, with 39 branches, 7 subsidiaries, one joint venture bank and 3 representative offices in 20 countries, followed by State Bank of India with 30 branches, five subsidiaries, three joint venture banks and seven representative offices in 29 countries and Bank of India with 20 branches, one subsidiary, two joint venture banks and three representative offices in 14 countries.

### **INTERNATIONAL MONETARY FUND**

As part of its mandate for international surveillance under the Article of Agreement, 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. During this exercise the IMF mission holds discussions with RBI and various ministries/ departments of Central Government. The Article IV consultations are concluded with a meeting of IMF Executive Board at Washington D.C. which discusses the Report. The first phase of 2004 Article IV consultations was held in November 2003. After that another visit was made by the IMF Mission to India in March 2004 for making some interim assessment about the macro-economic and monetary development situation for the purpose of World Economic Outlook Report. Second phase of 2004 Article IV consultations concluded in October 2004.

**Special Data Dissemination Standards (SDDS) :** The SDDS indicates norms relating to coverage timeliness and periodicity of data, access to public and integrity and

quality of data. The Statistics Department of the IMF linked India's National Summary Data Page to the Dissemination Standard Bulletin Board (DSBB) on 7 July 2003, facilitating international investors and analysts getting information on India.

### **INDIA AND THE INTERNATIONAL MONETARY FUND (IMF)**

**Introduction :** India is a founder member of the International Monetary Fund. Finance Minister is the ex-officio Governor on the Board of Governors of the IMF and Governor, RBI is India's Alternate Governor. India is represented at the IMF by an Executive Director who also represents three other countries, viz. Bangladesh, Sri Lanka and Bhutan.

**Quota :** India's current quota in the IMF is SDR (Special Drawing Rights) 4,158.20 million in the total quota of SDR 213 billion, giving it a share holding of 1.95 per cent. However, based on voting share, India (together with its constituency countries viz. Bangladesh, Bhutan and Sri Lanka) is ranked 21st in the list of 24 constituency.

**Surveillance :** As of its mandate for international surveillance under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members. Usually every year, to review the economic status of the member countries. During Article IV consultations exercise the IMF mission holds discussions with the RBI and various line Ministries/Departments of the Central Government. The Article IV Consultations are concluded with a meeting of IMF Executive Board at Washington DC which discusses the Report. For the year 2005, a mid-term review was undertaken in March 2005. Latest round of Article IV Consultations took place in October 2005. The IMF staff completed a report on 22 December 2005. Staff report on India is discussed at the IMF Executive Board in February 2006 and the report was published accordingly.

**Financial Transaction Plan (FTP) :** India participates in the FTP of the IMF from 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 February 2006, India has made purchases transactions of SDRs 493.230 million and four repurchase transactions amounting to SDRs 466.474 million.

**India-IMF Institute :** In July 2004, India and IMF joint training programme at the national Institute of Bank Management, Pune was established. The Training Programme will provide policy oriented training in economics and related operational fields to Indian officials and officials of countries in South Asia and East Africa. The first training programme was held during July 2006. The RBI is the nodal body to coordinate the training programme with the IMF.

**Poverty Reduction Growth Facility :** Enhanced Structural Adjustment Facility (ESAF) was established in 1987 with an amount of SDR 6 billion to help the low income countries with heavy debt burdens in difficult external environment to implement comprehensive macro-economic and structural policy programmes aiming at strengthening their balance of payments position and fostering growth. India contributes as donations to Subsidy Account and made a commitment to provide grant contributes to the extent of US \$ 1 million per year over 15 year for a total of US \$ 15 million. India has paid thirteenth annual installment to the PRGF Trust Subsidy Account amounting to US \$ 1 million (equivalent to Rs 4,66,70,000) during July 2006.

## WORLD BANK LENDING TO INDIA

India has been borrowing from the World Bank through International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA) for various development projects in the areas of poverty alleviation, infrastructure, rural development, etc. IDA funds are one of the most concessional external loans for Government of India (GOI) and are used largely in social sector projects that contribute to the achievement of Millennium Development Goals (MDGs). IBRD funds are relatively costlier but cheaper than commercial external borrowings. The GOI utilises IBRD loans primarily for infrastructure projects. However, sometimes a blend of IDA credits and IBRD loans is also used. India has borrowed around US\$ 65.8 billion from the World Bank so far.

### Terms and Conditions of World Bank Lending

#### IBRD Loans

Repayment period	20 years including a grace period of 5 years
Interest	LIBOR + variable spread
Commitment charges undisbursed amount	0.75 per cent
Front End fee	1 per cent
Total Cost	LIBOR + 40 Basis points (approx.)

#### IDA Credits

Repayment period	35 years including a grace period of 10 years
Interest	Nil
Service Charges	0.75 per cent
Commitment Charges on undisbursed amount	0.5 per cent

**International Fund for Agricultural Development (IFAD) :** India is one of the original members of IFAD the Government of India had committed to contribute US\$ 15 million (3 equal installments of 5 million each) towards the 6th Replenishment of IFAD resources, which has already been paid. The Government of India has committed to contribute US\$ 17 million towards the 7th Replenishment of IFAD resources. The total amount of US\$17 million will be deposited in three installments of US\$ 5 million for financial year 2006-07 and US\$ 6 million for financial year 2007-08 and 2008-09.

The IFAD has assisted in 19 projects in the agriculture and Rural Development Sector with the commitment of US\$ 479.78 million. Out of these, 12 projects have already been closed.

## ASIAN DEVELOPMENT BANK

The Asian Development Bank (ADB), an international Partnership of 63 member countries, was established in 1966 with its headquarters at Manila, Philippines. India is a founder member. The Bank is engaged in promoting economic and social progress of its developing member countries in the Asia and the Pacific region. Its principal functions are as follows: (i) to make loans and equity investments for the economic and social advancement of its developing member countries; (ii) to provide

technical assistance for the preparation and execution of development projects and programs and advisory services; (iii) to respond to the requests for assistance in coordinating development policies and plans in developing member countries; and (iv) respond to the requests for assistance coordinating development policies and plans of developing member countries.

India's subscription to the Bank's capital stock as on 31 December 2004 is 6.424 per cent of all the member countries.

India started borrowing from ADB's Ordinary Capital Resources(OCR) in 1986. During calendar year 2004, ADB Board approved loans of US \$ 1200 million for five loans to India, namely :

Name of the Project	Amount US \$ million
1. Power Transmission (Sector) Project	400.00
2. National Highways Corridor Sector II Project	400.00
3. Assam Governance and Public Resource Management Sector Development Programme	125.00
4. Assam Governance and Public Resource Management Sector Development Project	25.00
5. Multisector Project for Infrastructure Rehabilitation in Jammu and Kashmir	250.00
<b>TOTAL</b>	<b>1200.00</b>

The Bank's lending has been mainly in the Energy, Transport and Communications, Finance, Industry and Social Infrastructure sectors. As of 31 December 2004, the Bank had cumulatively approved 83 Public Sector loans to India amounting to US\$ 14.111 billion. With 52 loans closed, the active portfolio comprises 31 loans. Cumulative disbursements till 31 December 2004 were about US\$ 7.304 billion.

India has contributed US \$ 2.91 million in convertible currency (upto the end of 2004) to the Technical Assistance Special Fund (TASF) of the ADB.

The Bank has extended technical assistance to India in addition to loans from its OCR window. The Bank's technical assistance support was US\$ 0.6 m in 1988. To end 2004, India has received a cumulative amount of US \$ 108.96 million. The technical assistance provided include support for institutional strengthening, effective project implementation and policy reforms as well as for project preparation.

India holds the position of Executive Director on the Board of Directors of the Bank - its Constituency comprises India, Bangladesh, Bhutan, Lao PDR and Tajikistan. The Finance Minister is India's Governor on the Board of Governors of Asian Development Bank and Secretary (EA) is the Alternate Governor.

#### **FOREIGN INVESTMENT PROMOTION BOARD**

The Foreign Investment Promotion Board (FIPB) has been reconstituted on 18 February 2003 and transferred to the Department of Economic Affairs (DEA), Ministry of Finance with the following administrative arrangements.

The Foreign Investment Promotion Board (FIPB) comprises the following Core Group of Secretaries to the Government: (i) Secretary to Government, Department of

Economic Affairs, Ministry of Finance– Chairman. (ii) Secretary to Government, Department of Industrial Policy and Promotion, Ministry of commerce and Industry. (iii) Secretary to Government, Department of Commerce, Ministry of Commerce and Industry. (iv) Secretary to Government, Economic Relations, Ministry of External Affairs. (v) Secretary to Government, Ministry of Overseas Indian Affairs (being included).

The Board would be able to co-opt other Secretaries to the Government of India and top officials of financial institutions, banks and professional experts of industry and commerce, as and when necessary. In the present constitution, Secretary, Department of Revenue and Secretary, Department of SSI are the co-opted permanent members of the Board.

The FIPB in Department of Economic Affairs (DEA) is the Secretariat for executing the policy of the Government on Foreign Direct Investment (FDI). All proposals (complete in all respects) received in FIPB Secretariat are considered by the Board and the decision of the Government is conveyed in the prescribed time limit of 30 days.

#### **FOREIGN DIRECT INVESTMENT**

The Government of India has recently undertaken a comprehensive review of the FDI policy and associated procedures. As a result, a number of rationalisation measures have been undertaken which, inter alia include, dispensing with the need of multiple approvals from Government and/or regulatory agencies that exist in certain sectors, extending the automatic route to more sectors, and allowing FDI in new sectors.

As per the extant policy, FDI up to 100 per cent is allowed, under the automatic route, in most sectors/activities. FDI under the automate route does not require prior approval either by the Government of India or the Reserve Bank of India (RBI). Investors are only required to notify the concerned Regional office of RBI within 30 days of receipt of inward remittances and file required documents with that office within 30 days of issue of shares to foreign investors.

Under the Government approval route, applications for FDI proposals, other than by Non-Resident Indians, and proposals for FDI in 'Single Brand' product retailing, are received in the Department of Economic Affairs, M/o Finance. Proposals for FDI in 'Single Brand' product retailing and the NRI's are received in the Department of Industrial Policy and Promotion, M/o Commerce and Industry.

Foreign Investments in equity capital of an Indian company under the Portfolio Investment Scheme are not within the ambit of FDI policy and are governed by separate regulations of RBI/Securities and Exchange Board of India (SEBI).

At present, FDI is prohibited for the following sectors : (i) Retail trading (except Single Brand Product retailing), (ii) Atomic energy, (iii) Lottery business, (iv) cambling and Betting.

All Activities/Sectors would require period Government approval for FDI in the following circumstances: (i) where provisions of Press Note (2005 Series) are attracted; (ii) where more than 24 per cent foreign equity is proposed to be inducted for manufacture of items reserved for the Small Scale Sector.

FDI is permitted up to 100 per cent on the automatic route in most sectors subject to sectoral rules/regulations applicable.

### **Rationalisation of the FDI Policy**

The extent FDI policy stipulates as under :

- a. To allow under the automatic route, FDI up to 100 per cent.
  - i. distillation & brewing of potable alcohol;
  - ii. manufacture of industrial explosives;
  - iii. manufacture of hazardous chemicals;
  - iv. manufacturing activities located within 25 km of the Standard Urban Area limits which require Industrial license under the Industries (Development & Regulation) Act, 1951;
  - v. setting up Greenfield airport projects;
  - vi. laying of Natural Gas/LNG pipelines, market study & formulation and Investment financing in the Petroleum & Natural Gas sector; and
  - vii. cash & carry wholesale trading and export trading.
- b. To increase FDI caps to 100 per cent and permit it under the automatic route for:
  - i. coal & lignite mining for captive consumption;
  - ii. setting up infrastructure relating to marketing in Petroleum & Natural Gas sector; and exploration and mining of diamonds & precious stones.
- c. To allow FDI up to 100 per cent under the automatic route in :
  - i. power trading subject to compliance with Regulations under the Electricity Act, 2003
  - ii. processing and warehousing of coffee and rubber.
- d. To allow FDI up to 51 per cent with prior Government approval for retail trade of 'Single Brand' products, detailed guidelines for which have been notified vide Press Note 3 (2006 Series).
- e. To allow under the automatic route transfer of shares from residents to non residents in financial services, and where Securities & Exchange Board of India (Substantial Acquisition and Takeover) Regulations are attracted, in cases where approvals are required from the Reserve Bank of India/Securities & Exchange Board of India (Substantial Acquisition and Takeover) Regulations/Insurance Regulatory & Development Authority. With this, transfer of shares from residents to non- residents, including acquisition of shares in an existing company would be on the automatic route subject to sectoral policy on FDI.
- f. To dispense with the requirement of mandatory disinvestment of 26 per cent foreign equity in B2B-eCommerce.

FDI/NRI investment under the automatic route shall continue to be governed by the Sectoral regulations/licensing requirements.

### **INVESTMENT COMMISSION**

The Investment Commission was set up in December 2004 with a view to make the environment in India attractive for investors. The Commission has the broad authority of the Government to engage, discuss with and invite domestic and foreign businesses to invest in India. In terms of the notification, the recommendations of the Commission are to be processed in the Ministry of Finance and will be put up to the Competent Authority for approval. All policy decisions emerging from the recommendations of the Investment Commission would be put up to CCEA for approval.

The Commission in its report of February 2006 titled "Investment Strategy for India" has observed that for sustaining growth at over 8 per cent per annum will require an increase in investment levels in the economy from approximately 28 per cent of GDP to about 32 per cent of GDP. Over the next 5 years, this translates to a cumulative investment of about \$ 1.5 trillion. The Commission has set itself the goal to increase the level of FDI from the existing level of about \$ 5 billion to \$ 15 billion by 2007-08.

The Commission studied 25 key sectors spanning Infrastructure, Manufacturing, Services, Natural Resources and the Knowledge Economy. They represent a significant part of the economy and would require an aggregate investment of US \$ 525- \$ 550 billion over the next 5 years.

The Commission has recommended that for the enhancing growth, there is a need to identify a few National Thrust Areas with defined national goals, where all impediments for growth are removed, and where appropriate incentives are provided, to encourage investment in the Thrust Areas and/or in supporting infrastructure. The purpose of the defined Thrust Areas would be to elevate India's presence in these areas regionally or even globally. This has been successfully done in countries such as Singapore (Biotechnology) and Ireland (Pharmaceuticals, IT).

The Thrust Areas could include :

- Tourism
- Power
- Textiles
- Agro-processing

These specific sectors would also create enormous job opportunities (both direct and indirect) resulting in a considerable boost to the economy.

The Commission has also recommended for India's hosting of mega events focusing the country's attention on infrastructure development while also building national pride. Some ideas are : 2010 Olympics, Football World Cup, Formula One Racing, etc.

The Commission in its report has observed that as a result of their extensive investor interactions, many representations on policy/procedures or other impediments were resolved through reference to Government.

The report contains 115 sector-specific recommendations covering sectors such as infrastructure, Manufacturing and Services and 37 multi-sectoral recommendations. These recommendations relate to 27 Ministries/Departments and feedback from all major Ministries/Departments have since been received. Of these 115 sector-specific recommendations. Major part of the action has already been completed or is in the process of being implemented in respect of 86 recommendations.

**FDI Inflows :** Final figure of FDI received during the financial year 2005-2006 (from April 2005 to March 2006) show an inflow of US\$ 5,548.3 million (Rs. 24,612.59 crore) compared to US\$ 3,218.7 million (Rs. 14,652.75 crore) during the corresponding period in 2004-2005. This represents an increase of 72 per cent in dollar terms.

Within this the cumulative FDI inflows from August 1991 till March 2006 aggregate US\$ 38.90 billion (Rs. 1,61,410.93 crore). The details of FDI inflows as at Annex.

**Annexure****FACT SHEET ON FOREIGN DIRECT INVESTMENT (FDI)**

From AUGUST 1991 to MARCH 2006

(updated up to March 2006)

**I. FDI INFLOWS:****A. CUMULATIVE FDI INFLOWS (equity capital components only):**

1.	Cumulative amount of FDI inflows (from August 1991 to March 2005)	Rs. 1,36,798 crore	US\$ 33,356 million
2.	Amount of FDI inflows (from April 2005 to March 2006)	Rs. 24,613 crore	US\$ 5,549 million
3.	Cumulative amount of FDI inflows (up to March 2006)	Rs. 1,61,411 crore	US\$ 38,905 million

**Note:** FDI inflows include amount received account of advances pending for issue of share for the years 1999 to 2004.

**B. FDI INFLOWS DURING CURRENT FINANCIAL YEAR 2005-2006:**

Particulars	Amount of FDI inflows	
	(In Rs. Crore)	(In US\$ mn)
1. April 2005	1,172	268
2. May 2005	2,844	654
3. June 2005	1,149	264
4. July 2005	1,411	324
5. August 2005	1,739	399
6. September 2005	1,238	282
7. October 2005	1,844	412
8. November 2005	3,410	746
9. December 2005	1,587	347
10. January 2006	2,141	482
11. February 2006	563	127
12. March 2006	5,515	1,244
2005-2006 up to March 2006	24,613	5,459
2004-2005 up to March 2005	14,653	3,219
Percentage growth over last year	(+) 67.95	(+) 72.30

## C. YEAR-WISE FDI INFLOWS:

Sl. No.	Year (April-March)	Amount of FDI inflows	
		(In rupees crore)	(In US\$ million)
1.	1991-1992 (Aug-March)	409	167
2.	1992-1993	1,094	393
3.	1993-1994	2,018	654
4.	1994-1995	4,312	1,374
5.	1995-1996	6,916	2,141
6.	1996-1997	9,654	2,770
7.	1997-1998	13,548	3,682
8.	1998-1999	12,343	3,083
9.	1999-2000	10,311	2,439
10.	2000-2001	12,645	2,908
11.	2001-2002	19,361	4,222
12.	2002-2003	14,000	3,134
13.	2003-2004	12,117	2,634
14.	2004-2005	17,138*	3,755*
15.	2005-2006 (upto March 2006)	24,613	5,549
	<b>Grand Total</b>	<b>1,61,411</b>	<b>38,905</b>

**Note:** \* An Amount of US\$ 536 million (Rs. 2,485 crore), includes as advance for issue of share during 2004-2005.

**D. SHARE OF TOP INVESTING COUNTRIES FDI INFLOWS**  
(Financial year-wise)

*Amount Rupees in crore (US\$ in million)*

Ranks	Country	Agust 1991 to March 2002	2002-03 (April- March)	2003-04 (April- March)	2004-05 (April- March)	2005-06 (April- March)	Cumulative Inflows (from Aug. 1991 to March 2006)	%age with inflows
1.	Mauritius	27,446 (6,731)	3,766 (788)	2,609 (567)	5,141 (1,129)	11,411 (2,570)	50,403 (11,785)	37.18
2.	U.S.A	12,248 (3,188)	1,504 (319)	1,658 (360)	3,055 (669)	2,210 (502)	20,675 (5,038)	15.25
3.	Japan	5,099 (1,299)	1,971 (412)	360 (78)	575 (126)	925 (208)	8,931 (2,124)	6.59
4.	Netherlands	3,856 (986)	836 (176)	2,247 (489)	1,217 (267)	340 (76)	8,497 (1,994)	6.27
5.	U.K.	4,263 (1,106)	1,617 (340)	769 (167)	458 (101)	1,164 (266)	8,271 (1,979)	6.10
6.	Germany	3,455 (908)	684 (144)	373 (81)	663 (145)	1,345 (303)	6,570 (1,582)	4.81
7.	Singapore	1,997 (515)	180 (38)	172 (37)	822 (184)	1,218 (275)	4,388 (1,050)	3.24
8.	France	1,947 (492)	534 (112)	176 (38)	537 (117)	82 (18)	3,276 (779)	2.42
9.	South Korea	2,189 (594)	188 (39)	110 (24)	157 (35)	269 (60)	2,912 (752)	2.15
10.	Switzerland	1,200 (325)	437 (93)	207 (45)	353 (77)	426 (96)	22,622 (636)	1.93
Total FDI Inflows*		92,611 (23,829)	14,932 (3,134)	12,117 (2,634)	17,138 (3,754)	24,613 (4,549)	1,61,411 (38,905)	-

**Note:** (i) \* Includes inflows under NRI Schemes of RBI, stock swapped and advances pending issue of shares.  
(ii) Cumulative country-wise FDI inflows (from August 1991 to March 2006) -

## E. SECTORS ATTRACTING HIGHEST FDI INFLOWS:

*Amount Rupees in crore (US\$ in million)*

Ranks	Country	Amount of FDI Inflows					%age with FDI Inflows
		2002-03 (April-March)	2003-04 (April-March)	2004-05 (April-March)	2005-06 (April-March)	Cumulative Inflows (from August 1991 to March 2006)	
1.	Electrical Equipments (including computer software & Electronics)	3,075 (644)	2,449 (532)	3,281 (721)	6,499 (1,451)	23,709 (5,496)	17.49
2.	Telecommunications (radio paging, cellular mobile, basic telephone service)	1,058 (223)	532 (116)	588 (129)	3,023 (680)	14,337 (3,372)	10.58
3.	Transportation Industry	2,173 (455)	1,417 (308)	815 (179)	983 (222)	13,315 (3,178)	9.82
4.	Services Sector (financial & non-financial)	1,551 (926)	1,235 (269)	2,106 (469)	2,565 (581)	12,804 (3,091)	9.45
5.	Fuels (Power + Oil Refinery)	551 (118)	521 (113)	759 (166)	416 (94)	10,976 (2,581)	8.10
6.	Chemicals (other than fertilizers)	611 (129)	94 (20)	909 (198)	1,979 (447)	8,580 (2,143)	6.33
7.	Food Processing Industries	177 (37)	511 (111)	174 (38)	183 (42)	4,702 (1,179)	3.47
8.	Drugs & Pharmaceuticals	192 (40)	502 (109)	1,343 (292)	760 (172)	4,311 (1,007)	3.18
9.	Cement and Gypsum Products	101 (21)	44 (10)	1 (0)	1,970 (452)	3,231 (747)	2.38
10.	Metallurgical Industries	222 (47)	146 (32)	881 (192)	681 (153)	2,816 (655)	2.08

**Note:** Cumulative sector-wise FDI inflows (from August 1991 to March 2006)  
- Annexure-B

**REGION-WISE/STATE-WISE BREAK-UP FOR FDI INFLOWS<sup>1</sup> RECEIVED**  
(as reported to Regional Offices of RBI) (from January 2000 to March 2006)

Ranks	RBI's-Regional Office <sup>2</sup>	State covered	Amount of FDI Inflows		% age with FDI Inflows (in rupee terms)
			Rupees In crore	US in million	
1.	New Delhi	Delhi, Part of UP & Haryana	23,074.29	5,116.9	24.58
2.	Mumbai	Maharashtra, Dadra & Nagar Haveli, Daman & DIU	20,535.68	4,533.5	20.90
3.	Bangalore	Karnataka	6,984.17	1,546.3	7.44
4.	Chennai	Tamil Naru & Pondicherry	5,432.52	1,193.2	5.79
5.	Hyderabad	Andhra Pradesh	3,083.46	681.7	3.28
6.	Ahmedabad	Gujarat	2,883.90	631.9	3.07
7.	Chandigarh	Chandigarh, Punjab, Haryana, Himachal Pradesh	1,481.41	320.3	1.58
8.	Kolkata	West Bengal, Sikkim, Andaman & Nicobar Islands	1,277.24	280.7	1.36
9.	Panaji	Goa	494.42	107.6	0.53
10.	Kochi	Kerala, Lakshadweep	333.45	73.6	0.34
11.	Bhubaneswar	Orissa	315.88	70.6	0.34
12.	Bhopal	Madhya Pradesh, Chhattisgarh	168.84	37.3	0.18
13.	Guwahati	Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Tripura	41.74	9.0	0.04
14.	Jaipur	Rajasthan	18.76	4.2	0.02
15.	Patna	Bihar, Jharkhand	2.74	0.6	0.00
16.	Kanpur	Uttar Pradesh, Uttaranchal	0.03	0.0	0.00
17.	Not Indicated <sup>3</sup>		27,764.24	6,118.8	29.57
	TOTAL		93,892.76	20,726.3	100.00
18.	Advance of inflows (from 2000 to 2004)		8,962.22	1,962.8	-
19.	Stock Swapped		284.87	61.2	-
20.	RBI's-NRI Schemes 589.15		134.4	-	-
	TOTAL FDI INFLOWS (From January 2000 to March 2006)		1,03,729.00	22,884.7	-

<sup>1</sup> Includes a equity capital components only.

<sup>2</sup> The Region-wise FDI inflows are classified as per RBI's - Region-wise inflows, furnished by RBI, Mumbai.

<sup>3</sup> Represents inflows through acquisition of existing shares by transfer from residents. For this, regional wise information is not provided by Reserve Bank of India.

## **NRI UNIT**

Major Functions of NRI Unit which is a part of the Investment Division are as under :

- (a) Euro-equity / Foreign Currency Convertible bonds policy.
- (b) Foreign Institutional Investors Portfolio Investment Policy.
- (c) Investment Policy for Non-Resident Indian.
- (d) Policy governing opening up of branch/liaison/project office by foreign companies and coordination in respect of individual proposals referred to Government by RBI.
- (e) Matters related to Indian Investment Centre, an autonomous body under the Ministry of Finance.

## **INSURANCE DIVISION**

### **LIFE INSURANCE CORPORATION OF INDIA**

The Life Insurance Corporation of India (LIC) with its central office in Mumbai and seven Zonal Offices at Mumbai, Kolkata, Delhi, Chennai, Hyderabad, Kanpur and Bhopal operates through 101 divisional Offices including one Salary Savings Scheme (SSS) Division at Mumbai and 2048 branch offices. As on 31 March 2006, LIC has 10,52,283 agents spread all over the country. The Corporation also transacts business abroad and has offices in Fiji, Mauritius and United Kingdom. An overseas subsidiary of the Corporation namely Life Insurance Corporation (International) E.C. Bahrain was established in 1989. LIC is associated with joint ventures abroad in the field of insurance, namely, Ken-India Assurance Company Limited, Nairobi, a registered joint venture company in Kathmandu, Nepal by the name of Life Insurance Corporation (Nepal) Limited in collaboration with Vishal Group Limited, a local industrial Group. LIC (Lanka) Ltd., the latest joint venture subsidiary of the Corporation was established in Sri Lanka on 1 March 2003 in partnership with local company M/s Bartleet & Company Ltd. An off-shore company LIC (Mauritius) off-shore Limited was registered to tap the African insurance market.

During 2005-06, the total new business under Individual Assurances was Rs 2,87,530.24 crore under 315.73 lakh policies. The Group Insurance business during the year 2005-06 brought new business premium of Rs 3,919.01 crore under 11,845 schemes covering 51.27 lakh people. The sum assured in respect of conventional Group Insurance Business is Rs 25,216.88 crore. In addition, LIC sold 19,48,025 new individual pension policies including Future Plus.

The Life Fund of LIC as on 31 March 2006 as per the provisional results amounts to Rs 4,63,147.62 crore. During 2005-06 the Corporation made payments of Rs 3769.04 crore under Death Claim cases, Rs 24743.42 crore under Maturity Claims and Rs 1977.54 crore under annuities.

Under Varishtha Pension Bima Yojana the Corporation made payments of Rs 75.47 crore under Death Claim cases and Rs 656.08 crore under annuities.

### **SOCIAL SECURITY GROUP INSURANCE SCHEME**

A Social Security Fund (SSF) was set up in 1988-89 for providing social security through Group Insurance Scheme to the weaker and vulnerable sections of the society. The SSF is administered by LIC for meeting insurance requirements of the segment.

People belonging to 24 occupational groups/areas have been covered under this scheme. The scheme has been replaced by Janshree Bima Yojana from August 2000. But the renewal of the groups covered earlier is permitted.

### **JANASHREE BIMA YOJANA**

The Janashree Bima Yojana was launched on 10 August 2000. The Scheme has replaced Social Security Group Insurance Scheme (SSGIS) and Rural Group Life Insurance Scheme (RGLIS).

The Scheme provides for an insurance cover of Rs 20,000 on natural death. On death/total permanent disability due to accident, the benefit is Rs 50,000 increased to Rs 75,000 w.e.f. 15 August 2006. On partial permanent disability due to accident, the benefit is Rs 25,000 increased to Rs 37,500 w.e.f. 15 August 2006. The premium for the scheme is Rs 200 per member. 50 per cent premium under the scheme will be met out of Social Security Fund. The balance premium is to be borne by the member and/or Nodal Agency. As on 31 March 2006 about 39.87 lakh have been covered. The balance in Social Security Fund as on 31 March 2006 is Rs 808 crore.

### **KRISHI SHRAMIK SAMAJIK SURAKSHA YOJANA**

The multi-benefit scheme for the agricultural workers, commenced on 1 July 2001, provides life insurance protection, periodical lump sum survival benefit and pension to those who were between the age of 18-50 years. Minimum membership of the group at commencement should be 20.

Gram Panchayat was to act as nodal agency and with the help of NGO/SHG or any other agency, would identify the agricultural workers.

As on 31 March 2006, 29,074 agricultural workers have been covered. Sale of new policies discontinued from December 2003. No new lives are to be added even under existing schemes at the time of renewal.

### **SHIKSHA SAHAYOG YOJANA**

The scheme was launched on 31 December 2001, with the object to lessen the burden of parents in meeting the educational expenses of their children. It provides scholarships to students of parents living below or marginally above poverty line and who are covered under Janashree Bima Yojana and are studying in 9th to 12th standard (including ITI courses)

A scholarship amount of Rs 300 per quarter per child is paid for a maximum period of four years and for maximum two children of a member covered under Janashree Bima Yojana. No premium is charged for this benefit. As on 31 March 2006, scholarship were disbursed to 3,20,253 beneficiaries.

### **GENERAL INSURANCE CORPORATION OF INDIA**

The General Insurance Corporation of India (GIC) was approved as the "Indian Reinsurer" on 3 November 2000. As the "Indian Reinsurer" GIC has been giving reinsurance support to four public sector and other private general Insurance Companies. The Corporation has commenced full-fledged life reinsurance operations from 1 April 2003. It continues its role as a reinsurance facilitator by managing marine hull pool and terrorism pool on behalf of India Insurance industry. The reinsurance programme of GIC aims at optimising the retention within the country and developing adequate reinsurance capacity.

During the year, the Corporation continued to offer maximum support for all classes of business to the Indian insurers. It has availed a new cover, the Peak Risk Facility, thereby increasing the PML capacity to Rs 3,000 crore from Rs 1,500 crore. The capacity of terrorism pool managed by GIC has increased to Rs 500 crore from 1

April 2005 from the earlier limit of Rs 300 crore. The GIC continues to lead the reinsurance programme of the companies in Maldives, Kenya, Malaysia, Mauritius, Middle-East, Africa and Sri Lanka. In the process, it has emerged as a preferred Reinsurer in the Afro-Asian region. During the year 2005-06, the net premium income of the Corporation has grown to Rs 4,234.88 crore as against Rs 4,614.87 crore in the previous year. The net incurred claims were at Rs 4,573.07 crore, i.e., 107.98 per cent as against Rs 3702.80 crore in the previous year, i.e., 80.25 per cent. Profit before tax was Rs 442.94 crore as on 31 March 2006 compared to Rs 800.08 crore as on 31 March 2005. The Corporation has recorded a profit after tax of Rs 598.52 crore as against Rs 200.02 crore in the previous year. The total assets and networth have grown to Rs 26,424.03 crore and Rs 4,759.13 crore respectively as on 31 March 2006.

The Corporation has its presence in foreign reinsurance business through its representative offices at London and Moscow. Apart from reinsurance business, GIC continues to participate in the share capital of Kenindia Insurance Company Ltd., Kenya and India International Insurance Pte. Ltd., Singapore. The Corporation has subscribed to 30 per cent of the holdings in the initial share capital of LIC (Mauritius) Offshore Ltd., a joint venture Company promoted by LIC of India in Mauritius.

#### **PUBLIC SECTOR GENERAL INSURERS' ASSOCIATION OF INDIA**

After de-linking from GIC in 2000, the four General Insurance Companies, namely, National Insurance Company Ltd., New India Assurance Company Ltd., Oriental Insurance Company Ltd., and United India Insurance Company Ltd., formed an association known as 'GIPSA' with headquarters in Delhi. The four public sector companies have a network of 95 Regional Offices, 1373 Divisional Offices, 2533 Branch Offices in India and 55 Overseas Offices.

The gross premium income of the four public sector general insurance companies during 2005-06 was Rs 14,997 crore as against Rs 13,973 crore during 2004-05, representing a growth of 10.73 per cent. Profits after tax for 2005-06 increased to Rs 1,425 crore from Rs 1,172 crore in 2004-05. The companies have paid a total dividend of Rs 266 crore in 2005-06 to the government. The market share of these companies has gone down to 72.87 per cent in 2005-06 from 77.49 per cent in 2004-05 with the entry of private players.

#### **AGRICULTURE INSURANCE COMPANY OF INDIA LIMITED**

A separate organisation for Agriculture Insurance called 'Agriculture Insurance Company of India Ltd.' (AICIL) has been incorporated under the Companies Act, 1956 on 20 December 2002 with the capital participation from General Insurance Corporation of India (GIC), four public sector general insurance companies viz., (i) National Insurance Company Ltd., (ii) New India Assurance Company Ltd., (iii) Oriental Insurance Company Ltd., and (iv) United India Insurance Company Ltd. and NABARD. The promoter's subscription to the paid-up capital is - 35 per cent by GIC, 30 per cent by NABARD and 8.75 per cent each by the four public sector general insurance companies. The authorised capital of the AICIL is Rs 1,500 crore, while the initial paid-up capital is Rs 200 crore. While AICIL would underwrite crop insurance to begin with, it will, in due course, cover other allied rural/agricultural risks also. National Agriculture Insurance Scheme (NAIS) which was being implemented by the General Insurance Corporation of India (GIC) has since been transferred to the new AICIL.

*National Agricultural Insurance Scheme* : The Government of India, in co-ordination

with the GIC, have introduced a new Scheme, called the National Agricultural Insurance Scheme (NAIS), from Rabi 1999-2000 season replacing the Comprehensive Crop Insurance Scheme (CCIS). The scheme is being implemented by the newly set-up Agriculture Insurance Company of India Ltd., on behalf of the Ministry of Agriculture who are the Administrative Ministry. The main objective of the scheme is to protect the farmers against losses suffered by them due to crop failure on account of natural calamities, such as drought, flood, hailstorm, cyclone, fire pest/diseases, etc., so as to restore their credit worthiness for the ensuing season. The new scheme is available to all the farmers — loanee and non-loanee both, irrespective of their size of holding. It envisages coverage of all food crops (cereals, millets and pulses), oilseeds and annual horticultural/commercial crops, in respect of which past yield data is available for adequate number of years. Among the annual commercial/horticultural crops, eleven crops, namely, sugarcane, potato, cotton, ginger, onion, turmeric, chillies, jute, tapioca, annual banana and pineapple are presently covered. All other annual horticultural and commercial crops will be covered subject to the condition of availability of past yield data.

The premium rates for Bajra and Oilseeds are 3.5 per cent of sum insured or actuarial rates whichever is less while for Cereals, other Millets and Pulses, the premium rates are 2.5 per cent of sum insured or actuarial rates whichever is less. During Rabi season, the premium rate for wheat is 1.5 per cent of the sum insured or actuarial rates, which ever is less, and, for other food crops and oilseeds, premium rate is 2 per cent of the sum insured on actuarial rates, whichever is less. In the case of annual commercial/horticultural crops, actuarial rates are charged. 50 per cent subsidy in premium is allowed in case of small and marginal farmers. The subsidy is shared equally by States/Union Territories and Central Government. The subsidy in premium will be phased out on a sun-set basis over a period of five years.

**Farm Income Insurance Scheme :** In order to target the two critical components of a farmer's income, namely, and yield and price, through a single policy instrument, the Department of Agriculture and Cooperation formulated the Farm Income Insurance Scheme (FIIS). This Scheme was conceived to provide income protection to the farmers by integrating the mechanism of insuring production as well as market risks. The main features of the scheme are given in Box. Initially the scheme has been taken up on a pilot basis in Rabi 2003-04 in 18 districts of 12 States for wheat and paddy. The premium rates under the scheme is based on actuarial calculations. The Government of India provide subsidy of 75 per cent of the premium for small and marginal farmers and 50 per cent for others. During Rabi 2003-04, a total of 1.8 lakh farmers were covered over an area of 1.9 lakh hectares. Premium amounting to Rs 14.1 crore was generated as against the sum insured of Rs 239 crore. Claims to the tune of 1.5 crore were paid for the season. The scheme continued during Kharif 2004 season also covering 20 districts in 4 states covering a total of 2.22 lakh farmers over an area of 2.02 lakh hectares. Premium amounting to Rs 15.68 crore was generated against a sum insured of Rs 177.56 crore.

**Rainfall Insurance "Varsha Bima" :** Agriculture Insurance Company of India Ltd. (AICIL) introduced Rainfall Insurance Scheme known as "Varsha Bima" during 2004 South West monsoon period. Varsha Bima provided for five different options suiting varied requirements of farming community these are (i) seasonal rainfall insurance based on aggregate rainfall from June to September (ii) sowing failure insurance based on rainfall between 15 June and 15 August, (iii) rainfall distribution

insurance with weight assigned to different weeks between June and September, (iv) agronomic index constructed on the basis of water requirements of crops at different pheno-phases, (v) catastrophe option, covering extremely adverse deviation of 50 per cent and above in rainfall during the season. Varsha Bima has been piloted in 20 rain-gauge area spread over Andhra Pradesh, Karnataka, Rajasthan and Uttar Pradesh. A total of 1050 farmers were covered with a premium income of Rs 6.12 lakh against a sum insured of Rs 2.62 crore. Claims of Rs 5.63 lakh were paid.

**Universal Health Insurance Scheme (UHIS) :** The four public sector general insurance companies have been implementing Universal Health Insurance Scheme for improving the access of health care to poor families. The scheme provides for reimbursement of medical expenses up to Rs 30,000 towards hospitalisation floated rural and social sectors; and licensing of agents, corporate agents, brokers, and third party administrators. This is in addition to the regulatory framework provided for registration of insurance companies, maintenance of solvency margin, investments and reporting requirements.

Since opening up, the number of participants in the industry has gone up from five insurers (including Life Insurance Corporation of India but excluding General Insurance Corporation) in the year 2000 to 31 insurers each in the life and non-life segments (including specialised insurers, viz., Export Credit Guarantee Corporation and Agriculture Insurance Company). Star Health and Alliance Insurance Company set up as a non-life insurance is proposing to concentrate exclusively on health insurance. The premium underwritten by the industry has grown from Rs 45,677.57 crore in the year 2000-01 to Rs 1,02,376.51 crore in 2004-05. As per provisional statistics, the first year premium underwritten by the life insurers during 2005-06 was Rs 35,897.96 crore. As per provisional estimates, non-life insurers underwrote a premium of Rs 20,421.17 crore in 2005-06. The channels introduced in the market to underwrite premiums include agents, brokers, corporate agents including banks, referral arrangements and sales through the internet. As on date there are over 24.60 lakh agents in the insurance sector. The industry has been strengthened with additional commitment of funds to support the activities of the insurers. The paid up equity capital (provisional) of the insurers stood at Rs 9004.96 crore as on 31 March 2006, as against Rs 1692 crore as on 31 March 2001, in line with substantial insurance business growth and to meet Regulatory Solvency requirements, confirming their long-term commitment to the industry.

Efforts at increasing consumer awareness have been made at both the industry and regulatory levels. The competitive market conditions have also resulted in driving down premium rates/charges in respect of certain products and in improving the quality of services offered by the insurers. The competition pursuant to the establishment of new insurers has brought various innovative products into the market, including popularising the concept of capital market linked life insurance products. In addition to the conventional channels, NGOs and e-choupals are being tapped to sell insurance in the rural markets for providing coverage to informal sectors, backward classes and economically weaker sections. The Authority has also invited comments on the Concept Paper on Micro-Insurance, which could provide the framework for insurers designing suitable micro-insurance products. Norms are being framed to recognise micro insurance agents, like Non-Government Organisations (NGO), Micro Finance Institutions (MFI) and Self Help Groups (SHG). It is envisaged that micro insurance would facilitate penetration of insurance to the

rural and remote areas.

At present fire, motor and engineering segments of the non-life industry are tariffed. After liberalisation of the industry and entry of private players it was expected that de-tariffing would be introduced across the board. In view of the continuous losses incurred by the industry under the motor portfolio, the Authority had constituted Justice Rangarajan Committee, followed by S.V. Mony Committee to examine various issues in the Motor Portfolio. As a follow-up of the recommendations, the Authority has decided to de-tariff all businesses currently under tariff from 1 January 2007. The business that will be de-tariffed are Fire, Motor, Engineering and Workmen's Compensation Insurances.

### DISINVESTMENT

The disinvestment of Government equity in Central Public Sector Enterprises (CPSEs) began in 1991-1992. Till 1999-2000, it was primarily through sale of minority shares in small lots. From 1999-2000 till 2003-04, the emphasis of disinvestment changed in favour of Strategic Sale viz. sale of a large block of shares alongwith transfer of management control to a Strategic Partner identified through a process of competitive bidding. After 2004-2005, disinvestment realisations have been through sale of small portions of equity. The total proceeds from disinvestment between 1991-1992 and 31st May, 2008 amounted to Rs 53,423.03 crore, consisting of the following:

Item	Amount Realised (Rs. Crore)	per cent
Receipts through sale of minority shareholding in CPSEs	35,358.01	66.18
Receipts through sale of majority shareholding of one CPSE to another CPSE	1317.23	2.47
Receipts through Strategic sale	6,344.35	11.88
Receipts from other related transactions	4,005.17	7.50
Receipts from sale of residual shareholding disinvested CPSEs/companies	6,398.27	11.98
<b>TOTAL</b>	<b>53,423.03</b>	<b>100</b>

**Policy Framework :** The National Common Minimum Programme (NCMP) adopted by the Government outlines the policy of the Government with respect to the public sector including disinvestment of Government equity in CPSEs. The salient features of NCMP in this regard are as follows:

- (a) The Government is committed to a strong and effective public sector whose social objectives are met by its commercial functioning. But for this, there is need for selectivity and a strategic focus. The Government is pledged to devolve full managerial and commercial autonomy to successful, profit-making companies operating in a competitive environment. Generally profit-making companies will not be privatised.
- (b) All privatisations will be considered on a transparent and consultative case-by-case basis. The Government will retain existing "navratna" companies in the public sector while these companies can raise resources from the capital market. While every effort will be made to modernise and restructure sick public sector companies and revive sick industry, chronically loss-making companies

will either be sold-off, or closed, after all workers have got their legitimate dues and compensation. The Government will induct private industry to turn around companies that have potential for revival.

- (c) The Government believes that privatisation should increase competition, not decrease it. It will not support the emergence of any monopoly that only restricts competition. It also believes that there must be a direct link between privatisation and social needs – like, for example, the use of privatisation revenues for designated social sector schemes. Public sector companies and nationalised banks will be encouraged to enter the capital market to raise resources and offer new investment avenues to retail investors.

At present, the Government has decided, in principle, to list, large profitable CPSEs on domestic stock exchanges and to selectively sell small portions of equity in listed, profitable CPSEs, other than the *navratnas*.

### Constitution of National Investment Fund

The Government has constituted a “National Investment Fund” (NIF) in 2005-06 into which the proceeds from disinvestment of Government equity in CPSEs would be channelised. NIF would be maintained outside the Consolidated Fund of India and would be professionally managed by selected Public Sector Mutual Funds to provide sustainable returns without depleting the corpus. 75 per cent of the annual income of NIF will be used to finance selected social sector schemes, which promote education, health and employment. The residual 25 per cent of the annual income of NIF will 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. The corpus of the fund as on 31st March, 2008 is Rs. 1651 crore.

During 2004-05, Government realized Rs. 2,684.07 crore from the sale of 43.29 crore equity shares of Rs. 10 each of National Thermal Power Corporation Ltd., Rs. 64.81 crore from the sale of shares of employees of IPCL and Rs. 15.99 crore as balance amount of realization from the Offer for Sale in ONGC.

During the year 2005-06, in January 2006, the Government realized a sum of Rs. 1,567.60 crore from the sale of 8 per cent of equity out of its shareholding of 18.28 per cent in Maruti Udyog Limited (MUL), to public sector financial institutions and banks. The average realization was Rs. 678.24 per share. Further, Rs. 2.08 crore was received by the Government in March 2006, from the sale of 31,507 equity shares in MUL to officers/employees of MUL at a price of Rs. 660 per share.

The residual Government shareholding of 10.27 per cent equity in MUL was sold in May, 2007 through the differential pricing method to Indian public sector financial institutions, public sector banks and Indian mutual funds. Government realised Rs. 2366.94 crore for the sale. The average realization per share was Rs. 797.49.

Five per cent of the pre-issue paid up equity of Power Grid Corporation of India Limited, out of Government's holding, was invested alongwith the Initial Public Offering of the Company consisting of fresh issue of equity equal to 10%. The issue opened for subscription in September, 2007. In October 2007, Government realized Rs. 994.82 crore from the sale of five per cent equity.

Ten per cent of the pre-issue paid up equity of Rural Electrification Corporation

of India Ltd., out of Government's holding, was disinvested alongwith the Initial Public Offering of the company consisting of fresh equity equal to 10%. The issue opened for subscription in February, 2008. In March, 2008 Government realized Rs. 819.63 crore from the sale of ten per cent equity

## CM DIVISION

The Capital Market Division is responsible for formulating policies relating to protection of the interest of investors in securities and promotion of the development of and the regulation of the securities markets. In particular, it is responsible for a) institutional reforms in securities markets, b) building regulatory and markets institutions, c) strengthening investor protection mechanism and d) providing and efficient legislative framework for securities markets. In pursuance of these objectives, the Division Administers the Securities Contracts (Regulation) Act, 1956, Securities and Exchange Board of India Act, 1992 and the Depositories Act, 1996.

The measures taken during 2005-06 include:

### (a) Primary Market

- SEBI Disclosure and Investor Protection (DIP) Guidelines, 2000 relating to book-building issues were amended to introduce a specific allocation of 5 per cent for Mutual Funds, proportionate allotment to Qualified Institutional Buyers (QIBs) and margin requirement for QIBs.
- In order to ensure availability of floating stocks on a continuous basis and maintain uniformity for the purpose of continuous listing, it was decided to amend SEBI (DIP) Guidelines, 2000 prescribing minimum public shareholding of 25 per cent in case of all listed companies barring a few exceptions.
- In order to assist the investors, particularly the retail investors, in-principle approval was given for grading of IPOs by the rating agencies at the option of the issuers.
- In order to rationalise disclosure requirements, it was decided to do away with voluminous and repetitive disclosures in case of rights issues and public issues by the listed companies which have a satisfactory track record of filing periodic returns with the stock exchanges and have a comprehensive mechanism for satisfactory redressal of investor grievances.
- Listed companies were advised to comply with the provision of revised Clause 49 of the Listing Agreement on corporate governance, including appointment of the independent directors by 31 December 2005.

### (b) Secondary Market

- In order to ensure faster and hassle-free refunds, it was decided to extend the facility of electronic clearing services to refunds arising out of public issues, initially at 15 centres where clearing houses are managed by the Reserve Bank of India.
- In order to facilitate execution of large trades without impacting the market, the stock exchanges were permitted to provide a separate trading window for block deals subject to certain conditions. BSE and NSE activated this window with effect from 14 November 2005.
- SEBI advised the Depositories/DPs not to levy any charges when a Beneficiary Owner (BO) transfers all securities lying in his/her account to another branch of the same DP or to another DP of the same depository or another depository, provided the BO accounts at the transferee DP and at transferor DP are one and

the same.

- In order to prevent off-market trades prior to the commencement of trading, SEBI advised Depositories that, in case of IPOs, the ISINs of securities should be activated only on the date of commencement of trading on the stock exchanges.
- It was decided to resume in phases registration under the MAPIN Regulations to obtain the Unique Identification Number with biometric impression for a trade order value of Rs 5 lakh and above.
- In order to streamline the settlement system consistent with IOSCO CPSS Task Force recommendations, it was mandated that all transactions executed on the stock exchanges would be necessarily settled through the clearing corporation/clearing house of the stock exchanges.
- In order to expedite the Corporatisation and Demutualisation (C&D) of stock exchanges, SEBI approved and notified C & D schemes of 19 stock exchanges during 2005-06. The NSE and OTCEI have been exempted from submitting C & D schemes as they were already notified as corporatised and demutualised stock exchanges.
- The cumulative debt investment limit for FII investment in debt securities for 2006-07 has been revised upward within the overall limit of External Commercial Borrowings (ECBs). While such limit for Government securities (G-sec), including Treasury Bills, was raised from US \$ 1.75 billion to US \$ 2.0 billion, the same for the corporate debt was increased from US \$ 0.5 billion to US \$ 1.5 billion.
- In order to provide flexibility to corporate restructuring, SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 is being amended to provide for removal of restrictions on market purchases and preferential allotments. The outgoing shareholders can sell entire stake to the incoming acquirer in case of takeover. However, if the target company's minimum public shareholding falls below the prescribed minimum, the restoration should take place through a framework provided by the revised Clause 40A of the Listing Agreement.
- In order to simplify the existing framework, the SEBI (Delisting of Securities) Guidelines, 2003 were amended making it possible for stock exchanges to delist the shares of companies non-compliant with the Listing Agreement.

**(c) Collective Investment Scheme**

- Mutual funds were allowed to participate in the derivatives market in the same manner as the FIIs, subject to position limits.
- The SEBI (Mutual Funds) Regulations, 1996 were amended and a notification was issued on 12 January 2006 permitting mutual funds to introduce Gold Exchange Traded Funds (GETFs) in India subject to certain investment restrictions.
- Mutual funds were permitted to invest in ADRs, GDRs and foreign securities. In case, disclosures to this effect were not made in the offer document, all mutual funds were advised to send a written communication to the investors about the proposed investment.
- The Venture Capital Funds were allowed to invest in securities of foreign companies subject to the conditions stipulated by RBI and SEBI from time to time.

## EXTERNAL COMMERCIAL BORROWINGS

External Commercial Borrowings are being permitted as an additional source of funds to Indian corporates and PSUs for financing expansion of existing capacity as well as for fresh investment, augmenting the resources available domestically. ECBs refer to commercial loans, [in the form of bank loans, buyers' credit, suppliers' credit, securitised instruments (e.g. floating rate notes and fixed rate bonds)] availed from non-resident lenders with a minimum average maturity of 3 years. The ECBs are approved within an overall annual ceiling, consistent with prudent debt management, keeping in view the balance of payments position and the level of foreign exchange reserves of the country.

The policy is regularly reviewed in consultation with the Reserve Bank of India (RBI) keeping in view the current macroeconomic situation, challenges faced in external sector management and the experience gained so far in administering ECB policy. In the background of developments in recent months, Government announced amendments to the ECB policy on 3 June 2005 and in January 2006.

The ECB can be accessed under two routes, namely, (i) Automatic Route and (ii) Approval Route. ECB for investment in the real sector - industrial sector, especially infrastructure sector in India - is under the Automatic Route, i.e., will not require RBI/Government approval. The maximum amount of ECB which can be raised by an eligible borrower under the Automatic Route is US\$ 500 million during a financial year. The following is permissible under the Automatic route: (a) ECB up to US \$ 20 million or equivalent with minimum average maturity of 3 years. (b) ECB above US\$ 20 million and up to US\$ 500 million or equivalent with minimum average maturity of 5 years.

All cases, which fall outside the purview of the Automatic Route, will be decided by an Empowered Committee of RBI.

**Eligible borrowers:** Under the extant policy, corporates registered under the Companies Act, 1956, except financial intermediaries such as banks, financial institutions (FIs), housing finance companies and Non-Banking Finance Companies (NBFCs), are eligible. Subsequently, NGOs engaged in micro-finance activities have been permitted to raise ECB up to US\$ 5 million during a financial year for permitted end-use, under the automatic route. The Multi State Co-operative Societies engaged in manufacturing activities in real sector with financial solvency and up-to-date audited balance sheet have been permitted to access ECB under the Approval Route. Detailed guidelines have been issued by RBI. The eligibility/end-use has been expanded as follows: (a) ECB by NBFCs will be permitted under the Approval Route from multilateral financial institutions, reputed regional financial institutions, official export agencies and international banks towards import of infrastructure equipment for leasing to infrastructure projects with a minimum average maturity of 5 years. (b) Foreign Currency Convertible Bonds (FCCBs) by Housing Finance Companies with strong financials satisfying criteria to be notified by RBI, will be permitted under the Approval Route.

Individuals, Trusts and non-profit making organisations, except NGOs as mentioned above, are not eligible to raise ECB.

Financial institutions dealing exclusively with infrastructure or export finance such as IDFC, IL&FS, Power Finance Corporation, Power Trading Corporation, IRCON and EXIM Bank are considered on a case-by-case basis i.e., through the approval route.

Banks and financial institutions which had participated in the textile or steel sector restructuring package as approved by the Government are permitted to the extent of their investment in the package and assessment by RBI based on prudential norms. Any ECB availed for this purpose so far is deducted from their entitlement.

**Recognised Lenders :** Borrowers can raise ECB from internationally recognised sources such as : (i) international banks, international capital markets, multilateral financial institutions (such as IFC, ADB, CDC, etc.) (ii) export credit agencies and (iii) suppliers of equipment, foreign collaborators and foreign equity holders.

**Interest Rate Spreads :** All ECBs are subject to the following maximum spreads over six month LIBOR, for the respective currency of borrowing or the applicable benchmark(s) as the case may be:

Minimum Average Maturity Period	All-in-Cost Ceilings Over Six Months Libor*
3 years and up to 5 years	200 basis points
More than 5 years	350 basis points

\* All-in-cost ceilings includes rate of interest, other fees and expenses in foreign currency except commitment fee, pre-payment fee and fees payable in Indian rupees. Moreover, the payment of withholding tax in Indian rupees is excluded for calculating the all-in-cost.

**End-use :** Permissible end-use/restrictions are explained below : (a) ECB can be raised only for investment (such as import of capital goods, new projects, modernisation/ expansion of existing production units) in real sector - industrial sector including small and medium enterprises (SME) and infrastructure sector - in India. Infrastructure sector is defined as : (i) power, (ii) telecommunication, (iii) railways, (iv) roads including bridges, (v) ports (both sea and air), (vi) industrial parks and (vii) urban infrastructure (water supply, sanitation and sewage projects); (b) ECB proceeds can be utilised for overseas direct investment in Joint Ventures (JV)/Wholly Owned Subsidiaries (WOS) subject to the existing guidelines on Indian Direct Investment in JV/WOS abroad; (c) Utilisation of ECB proceeds is permitted in the first stage acquisition of shares in the disinvestment process and also in the mandatory second stage offer to the public under the Government's disinvestment programme of PSU shares; (d) Utilisation of ECB proceeds is not permitted for investment in capital markets by corporates or for on-lending, except for cases mentioned above; (e) Utilisation of ECB proceeds is not permitted in real estate. The term 'real estate' excludes development of townships, housing, built-up infrastructure and construction-development projects as defined by Ministry of Commerce and Industry, Department of Industrial Policy and Promotion, SIA (FC Division), Press Note 3 (2002 Series) dated 4 January 2002; (f) End-uses of ECB for working capital, general corporate purpose and repayment of existing Rupee loans are not permitted.

**Guarantees :** Issuance of guarantee, standby letter of credit, letter of undertaking or letter of comfort by banks, financial institutions and NBFCs relating to ECB is not normally permitted. Applications for providing guarantee/standby letter of credit or letter of comfort by banks, financial institutions relating to ECB in the case of SME will be considered on merit subject to prudential norms.

**Parking of ECB proceeds overseas :** ECB proceeds should be parked overseas until actual requirement in India.

**Prepayment :** Under the earlier guidelines, prepayment of ECB up to US \$ 100

million was permitted without prior approval of RBI, subject to compliance with the stipulated minimum average maturity period as applicable for the loan. It has now been decided to revise this upward to US\$ 200 million, subject to minimum average maturity of five years. Pre-payment of ECB for amounts exceeding US\$ 200 million or prepayment of ECBs with minimum average maturity of 3-5 years would be on the Approval Route.

**Refinance of existing ECB :** Refinancing of existing ECB by raising fresh ECBs at lower cost is permitted subject to the condition that the outstanding maturity of the original loan is maintained.

**Foreign Currency Convertible Bonds (FCCBs) :** The policy for ECB is also applicable to FCCBs in all respects, except in the case of Housing Finance Companies for which criteria will be notified by RBI.

The amendments to the ECB guidelines will come into force from the date of notification of regulations/directions by RBI under the Foreign Exchange Management Act, 1999.

As announced in Budget 2006-07, the limit on FII investment in Government securities has been increased from \$1.75 billion to \$ 2 billion and the limit on FII investment in corporate debt from \$ 0.5 billion to \$ 1.5 billion. The cap of US\$ 2 billion is applicable to FII investments in dated Government Securities and Treasury Bills only, both under 100 per cent debt route and the general 70:30 route. FII investment in corporate debt with commutative sub-ceiling of US \$ 1.50 billion would be over and above the sub-ceiling of US \$ 2 billion for Government debt. Also the ceiling for FII investments in Government securities and for corporate debt is not fungible. The overall ceiling for ECBs including limit for investment by FIIs for the financial year 2006-07, as recommended by RBI, has been increased from US \$ 15 billion to US \$ 18 billion.

## **PENSION REFORMS**

On 23 August 2003, the Government decided to introduce a new restructured defined contribution pension system called New Pension System (NPS) for new entrants to Central Government service, except to Armed Forces, in the first stage, replacing the existing defined benefit system. It was operationalised from 1 January 2004 through a notification dated 22 December 2003. An interim Pension Fund Regulatory and Development Authority (PFRDA) was constituted through a Government resolution dated 10 October 2003 as a precursor to a statutory regulator and became operational from 1 January 2004.

Till the architecture is fully in place, the Central Pension Accounting Office (CPAO) under the Controller General of Accounts, Department of Expenditure is acting as the interim Central Recordkeeping Agency (CRA). Contributions are currently being credited into the public account earning a return equal to the GPF rate.

A Bill providing for a regulatory framework for the pension sector under the Pension Fund Regulatory and Development Authority was introduced in Parliament on 21 March 2005 and was referred to the Standing Committee on Finance. The Committee presented their report in Parliament on 26 July 2005. The recommendations of the Committee have been examined and a proposal for amending the PFRDA Bill, 2005, based on the recommendations of the Committee is under the Government's

consideration.

The Bill proposes that the main mandate of PFRDA is to regulate the NPS, as amended from time to time by the Central Government. Pension Schemes already covered under the Employees Provident Fund & Miscellaneous Provisions Act, 1952 and other enactments would be specifically excluded from the architecture of the NPS including the Central Recordkeeping Agency (CRA) and pension funds. Further, the Bill provides that PFRDA will frame investment guidelines for pension funds. There are provisions empowering PFRDA to impose stringent penalties for any violation of the law and to create a special fund, to be used for educating and protecting the interests of subscribers to schemes of pension funds.

Press releases and notifications relating to pension reforms can be assessed at the Ministry of Finance website [www.finmin.nic.in](http://www.finmin.nic.in).

**Investment Guidelines for Non-government Provident Funds, Superannuation Funds and Gratuity Funds :** The Ministry of Finance notifies the investment pattern for non-Government provident funds, superannuation funds and gratuity funds. The investment pattern dated 24 January 2005 notified by the Ministry of Finance prescribes that incremental accretions by such funds shall be invested as follows :

- 40 per cent in Capital and State Government securities and/or units of gilt funds regulated by SEBI and any other negotiable securities fully and unconditionally guaranteed by the Central/State Government or any State Government, provided that exposure of a trust to any individual gilt fund should not be more than 5 per cent of its total portfolio at any point of time;
- 25 per cent in bonds/securities of public financial institutions and public sector companies including public sector banks provided that these instruments have an investment grade rating from at least two credit rating agencies; and/or term deposit receipts upto three years issued by public sector banks, and Collateral Borrowing and Lending Obligations (CBLOs) issued by Clearing Corporation of India Limited and approved by RBI;
- Another 30 per cent can be invested in any of the above categories as decided by the Trustees. Upto 10 per cent of this can be invested in private sector debt instruments which have an investment grade rating from at least two credit rating agencies and/or in equity-linked schemes of mutual funds regulated by SEBI;
- Upto 5 per cent can be invested in shares of companies that have an investment grade debt rating from at least two credit rating agencies.

The investment pattern dated 24 January 2005 notified by the Ministry of Finance can be accessed at the Ministry of Finance website [www.finmin.nic.in](http://www.finmin.nic.in).

**International Ratings :** In April 2006 S&P revised their long-term foreign currency rating on India from BB+ (with stable outlook) to BB+ (with positive outlook). Moodys' reaffirmed their last year's Foreign Currency Rating for the year of 2006 at Baa3 with a stable outlook, while Fitch's current rating is BBB-with a stable outlook.

**Indian Direct Investment in Joint Ventures/Wholly Owned Subsidiaries Abroad/ Bilateral Investment Promotion and Protection Agreement (BIPA) :** The policy on Indian Direct Investment Abroad has been consistently liberalised in the recent past contributing to significant growth in overseas investment by Indian corporates. The

liberalised policy is aimed at enabling Indian industry to access new markets and technologies with a view to increasing their competitiveness globally and promote exports.

The policy was further liberalised to enable Indian corporates to make investments in Nepal and Bhutan in freely convertible currencies, in addition to Indian rupees. The inward remittances of interest/dividends/profits from the investment in Nepal and Bhutan have been allowed in freely convertible currencies, in addition to Indian rupees.

The approved Indian Direct Investment Abroad has increased by more than four times from 290 approvals in 1996-97 to 1229 approvals in 2003-04. During the same period, the value of approved investments has increased by more than 2.5 times, from US\$ 557 million to US\$ 1450 million. During the year 2004-05 (Apr to Nov 2004), 793 approvals were issued for overseas investments worth US\$ 987 million.

During the year Bilateral Investment Promotion and Protection Agreements were signed/ratified with Cyprus, Bahrain, Indonesia and Yemen and negotiations were conducted with Saudi Arabia, Uruguay, Canada, Latvia and SAARC countries for finalising and concluding the agreement. So far agreements have been signed with 57 countries of which 47 have been ratified and others are in various stages of ratification.

#### **ADR/GDR/FCCBS ISSUES**

A scheme was initiated during 1992/1993 to allow the Indian Corporate Sector to have access to the Global Capital Markets through issue of Foreign Currency Convertible Bonds (FCCBs)/Equity Shares under the Global depository Mechanism.

Liberalisation in the guidelines are announced from time to time and the recent initiatives are listed below :

- Pricing guidelines for Indian listed companies FCCB/ADR/GDR were brought in alignment with SEBI's guidelines on domestic capital issues.
- Unlisted companies issuing FCCB/ADR/GDRs are now required prior or simultaneous listing in domestic stock exchange(s).
- Unlisted companies, which have issued ADR/GDR/FCCB, now required to list in domestic market by 31 March 2006. However, unlisted companies which had accessed FCCBs, ADR/GDRs in terms of guidelines at 22 May 1998 and are not making profit, be permitted to comply with listing condition on the domestic stock exchanges within three years of having started making profit. However, no fresh issues of FCCBs, ADR/GDRs by such companies will be permitted without listing first in the domestic exchanges.
- In order to rationalise the ADR/GDR guidelines further, Government exempted the companies, going in for an offering in the domestic market and a simultaneous or immediate follow on offering (within 30 days of domestic issue) through ADR/GDR issues wherein GDRs/ADRs are priced at or above the domestic price, from the requirement of the revised pricing guidelines.
- Unlisted Indian companies, which had issued FCCBs, ADRs/GDRs prior to 31 August 2005 and are not making profit are also permitted to sponsor such issues against existing shares and are permitted to comply with listing conditions

on the domestic stock exchanges within three years of having started making profits.

### **PORTFOLIO INVESTMENTS BY FOREIGN INSTITUTIONAL INVESTORS**

A scheme for attracting portfolio from Foreign Institutional Investors (FIIs) has been operational since September 1992. Under this scheme, FIIs including institutions such as Pension Funds, Mutual Funds, Investment Trusts, Asset Management Companies, Nominee Companies and Incorporated/Institutional Portfolio Managers or their power of attorney holders are allowed to invest in all the securities traded on the primary and secondary markets as also in unlisted companies. Such securities would include shares, debentures and warrants issued by companies which are listed/to be listed on the Stock Exchanges in India and the schemes floated by domestic mutual funds.

Such portfolio investments by FIIs are subject to investment ceilings as indicated below:

- |      |                            |   |   |
|------|----------------------------|---|---|
| (i)  | Individual FII/Sub-account | : | 10 per cent issued and paid-up capital in a company.  |
| (ii) | Aggregate by all FIIs      | : | 24 per cent of the issued and paid-up capital in a company which could be increased up to the sectoral cap/statutory ceiling, as applicable, by the Indian company concerned by passing a resolution by its Board of Director followed by passing of a special resolution to that effect by its General Body. |

The Lahiri Committee which was constituted to identify the sectors in which Foreign Institutional Investors (FIIs) portfolio investments will not be subject to the sectoral limits for Foreign Direct Investment except in specified sectors has submitted its report to Government. Besides making recommendation which would apply, in general, to all sectors, Committee has made specific recommendations for some sectors. The report of the Committee has been put on the web-site of this Ministry ([www.finmin.nic.in](http://www.finmin.nic.in)) for wider dissemination. Consultation with concerned Department for implementing the recommendations has been taken up separately.

### **EXPENDITURE**

The Department of Expenditure comprises eight main divisions, namely: (i) Establishment Division; (ii) Plan Finance-I Division; (iii) Plan Finance-II Division; (iv) Finance Commission Division; (v) Controller General of Accounts; (vi) Cost Accounts Branch; (vii) Staff Inspection Unit and (viii) Integrated Finance Division.

### **NATIONAL INSTITUTE OF FINANCIAL MANAGEMENT**

The Government of India in 1994 established the National Institute of Financial Management (NIFM) as an autonomous organization under the Ministry of Finance to train directly recruited probationers belonging to the various Group 'A' Accounting Services. The Union finance Minister, the Minister of State in the Ministry of Finance, the Secretary to the Government of India, Department of Expenditure and the heads of various accounting services, are ex-official members of the Registered Society for providing broad policy guidelines. Currently the Institute runs three long-term

programmes - Professional Training Course of 44 weeks for newly recruited probationers of Accounting Services; a one year Diploma Course in Govt. Accounts & Internal Audit and a two-year Post-Graduate Diploma in Business Management (Financial Management) programme for officers of Central Government, the State Government, Public Sector undertakings and other Organizations under Government. In addition, NIFM also conducts short term programmes for Central Government, State Government, PSUs. Autonomous Bodies and Officers from different foreign countries also participate in the programmes. NIFM also provides consultancy services to various departments and organizations of the Govt. of India, State Govt, PSUs, Autonomous Body, Universities and foreign courtiers.

### **STAFF INSPECTION UNIT**

The Staff Inspection Unit (SIU) was set up in 1964 with the objective of securing economy in the staffing of Government Organisations consistent with administrative efficiency and evolving performance standards and work norms. In the change scenario and keeping in view the Government emphasis on better governance and improved delivery of services, the role of SIU has been re-defined. The SIU has now been positioned to act as catalyst in assisting the line Ministries and autonomous organisations in improving their organizational effectiveness, through improved organizational structure/processes, optimum utilization of resources and focusing on monitorable, measurable outcome and specific deliverables.

### **ESTABLISHMENT DIVISION**

Establishment Division is the nerve centre for the entire gamut of the service conditions of the Central Government employees having financial content. Basically, these include revision/prescription of pay scales, fixation of pay and various allowances. The proposals received from various Ministries/Departments of the Government seeking clarification in regard to revision and prescription of pay scales, increments, deputation allowance and cadre review of various categories of posts are examined in this division keeping in view the equity and comparable relativities and duties. Besides, this Division also functions as the Cadre Authority for the Indian Cost Accounts Service (ICAS) and also attends to vigilance related issues. A Public Grievance Redressal Machinery with Joint Secretary in charge of Administration as the Director of Grievances is also functioning in this department. A "Complaint Committee" has also been constituted in this Department as per the guidelines of the Supreme Court for redressing the grievances of women.

### **PLAN FINANCE-I**

The Plan Finance-I Division handles matters relating to States' finances and financing of States' Annual Plans. It release Central Assistance to States for their Annual Plans including the assistance for externally aided projects, additional Central assistance for Jawaharlal Nehru National Urban Renewal Mission , Hill Areas/Western Ghats Development Programmes, Border Areas Development Programmes, Accelerated Irrigation Benefit Programmes, Accelerated Power Development Programme, Additional Central assistance for other specific schemes/projects of the States, Special Plan Assistance to States, National Social Assistance Programme including Annapurna, Special Central assistance for Backward Region Grant Fund, National E-Governance Programme.

The various types of assistance allocated/released during 2006-07 and the Budget provision made for the Schemes during 2007-08 are as under:-

(Rs. in Crores)

Sl. No.	Items/Schemes	Allocation for 2007-08 (RE) Supplementary	Amount released during 2007-08	Allocation for 2008-09 (BE) (Grant)
<b>A.</b>	<b>Plan Assistance</b>			
1.	Normal Central Assistance for States' Plan	14462.02	14462.01	17991.98
2.	Addl. Central Assistance for Externally Aided Projects	10365.17	10365.02	4550.00
3.	Special Plan Assistance to Arunachal Pr., Assam, Chhattisgarh, Himachal Pr., J&K, Manipur, Punjab, Uttaranchal & U.P.	3026.69	3026.68	4602.00
4.	Spl. Central Assistance for Jammu & Kashmir	900.00	900.00	0.00
5.	Addl. Central Assistance for other specific Scheme/Projects	1098.64	1098.64	0.00
6.	Addl. Central Assistance for Nutrition Programme for Adolescent Girls (NPAG)	60.29	60.29	162.77
7.	Central Assistance for Accelerated Power Development Reform Programme (APDRP)	1400.00	1400.00	800.00
8.	Central Loan Assistance for Accelerated Irrigation Benefit Programme (AIBP)	5580.00	5580.00	5550.00
9.	National Social Assistance Programme including Annapurna (NSAP)	2851.37	2851.37	3442.24
10.	Central assistance for Hill Areas/Western Ghats Development Programme	225.00	224.51	272.00
11.	Special Central Assistance for Border Areas Development Programme (BADP)	580.00	580.00	635.00
12.	Central assistance for Rashtriya Sam Vikas Yojana/ Backward Region Grant Fund	1130.00	1130.00	1130.00
13.	National E. Governance Action Plan (NEGAP)	268.76	268.36	469.37
14.	ACA for Sub-Mission on Urban Infrastructure and Governance (SMUIG)	2474.00	2474.00	3100.37
15.	ACA for Urban Infrastructure development for Small and Medium Towns (UIDSSMT)	1204.00	1204.97	879.69

## PLAN FINANCE-II DIVISION

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 overview 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.

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/201, 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 investments 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](http://www.finmin.nic.in))

During the period from 1st January to 2007 to 31st December, 2007, 68 meetings of the Expenditure Finance Committee (EFC) chaired by Secretary (Expenditure) considered 73 Plan investment proposals/schemes of various Ministries/ Departments costing Rs.1,08,786.76 crore. Also, 21 meetings of Public Investment Board (PIB) were held and 25 projects with a capital outlay of Rs.38,501.14 crore were recommended for approval of competent authority. The Ministry/Department wise position of projects considered by PIB is as below :

S.No.	Ministry/Department	No.of projects recommended for approval	Cost (Rs. crore)
1.	Shipping	7	6694.60
2.	Coal	8	8126.78
3.	Power	7	15274.25
4.	Road Transport & Highways	1	557.25
5.	Chemicals & Petro-chemicals	1	5460.61
6.	Heavy Industry	1	2387.90
<b>Total</b>		<b>25</b>	<b>38501.14</b>

Plan Finance-II Division conducted the Internal and Extra Budgetary Resources (I&EBR assessed for the Annual Plan 2008-09 (BE) worked out to Rs.1,95,531.04 crore (IR) of Rs.111197.60 crore and Extra Budgetary Resources (EBR) of Rs.84333.44 crore). The Planning Commission decides the extent to which the IR/I&EBR will be utilised for funding the Plan.

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, Fertilizer and Petroleum subsidies.

### **CONTROLLER GENERAL OF ACCOUNTS**

According to Article 150 of the Constitution of India the accounts of the Union and the States shall be kept in such form as the President may on the advice of Comptroller and Auditor General of India prescribe. This function of the President has been allocated to Controller General of Accounts in terms of Article 77 (3) of Constitution of India. The Controller General of Accounts (CGA) is the principle advisor to the Government of India on accounting matter and is responsible for establishing and maintaining a sound and efficient accounting and financial reporting system.

**Principles and Form of Accounts:** The CGA prescribes general principles and form of accounts of government relating to Union as well as State governments and frames rules and manuals relating thereto. In exercise of this power, CGA is entrusted with

the responsibility of framing and administering Government Accounting Rules, Central Government Accounts (Receipts & Payments) Rules, Central Treasury Rules, Accounting Rules for Treasuries, Account Code for State Accountant Generals, Account Code – Vol III, List of Major and Minor Heads of Account, Civil Accounts Manual, Suspense Manual, Drawing and Disbursing Officers Manual and Inspection Code.

***Budgetary Control, Payments, Receipts Collection and Accounting***: The CGA, through Chief Controller/Controller of Accounts and their Pay and Accounts Offices, carries out the budget control, payments, receipts collection and accounting functions of the Union. The CGA also prescribes the banking arrangement for government transactions and closely monitors movement of cash through a network of over 20,000 bank branches authorised to handle government transactions, into and out of the Government cash balance with Reserve Bank of India.

***Financial Reporting***: The CGA provides regular feedback to the Finance Minister and other line Ministries on the status of Government finances. He submits a critical fiscal analysis to the Finance Minister every month and releases data on Central Government Operations on the Internet in compliance with the Special Data Dissemination Standards (SDDS) of IMF. The CGA also compiles the annual accounts of the Union Government. The accounts comprising the Union Government Finance Accounts and the Appropriation Accounts, are presented before the Parliament duly audited by the Comptroller and Auditor General of India. A summary of these accounts is presented by the CGA in the form of “Accounts at a Glance” with a view to provide better understandability to the users of these documents.

***Technical Advice on Accounting Matters***: The CGA provides advice to all Ministries / Departments and State Governments on various accounting matters. The advice rendered by the CGA covers aspects related to maintenance of accounts, accounting procedures for new schemes / programmes or activities, collection of receipts and its crediting into Government account, release of payment and its accounting, creation and operation of funds within Government accounts, banking arrangements of making payments and collecting receipts, etc.

***Disbursement of pension***: The CGA is also responsible for disbursement and accounting of pension payments to Government employees retiring from all civil ministries. The functions are discharged through Central Pension Accounting Office (CPAO), which was created with the primary objective of simplifying the procedure of pension disbursement and accounting and providing better quality service to the pensioners. The CPAO is the central budgeting and accounting unit for the civil pensions. It functions as a single point interface between the Government, the banks and pensioners. With the introduction of modern technology, CPAO is able to serve over 6,00,000 pensioners spread all over the country through the network of bank branches specially authorised for pension disbursement.

***Internal Audit***: The Internal Audit function is carried out with the help of Internal Audit units in every Ministry, supervised by the respective Controller of Accounts; the Inspection Wing of CGA also provides guidance to the Controller of Accounts on this subject.

The CGA also brings out annual review report based on the performance of Internal Audit Wing of various Ministries/Department, highlighting major irregularities, such as those involving over payments, non-recovery of Government

dues, losses or infructuous expenditure, irregular procurement, etc., observed during the course of internal audit.

**Capital Restructuring and Disinvestment of PSUs:** The Controller General of Accounts is responsible for evaluating and processing the proposals relating to the capital restructuring of various public sector undertakings (PSUs) of the Union Government and its submission to the Ministry of Finance. Generally the proposals involve appraisal of the strategy proposed for reviewing the unit. Each proposal is evaluated on the basis of company specific options available. In evaluating these proposals a clear distinction is made between the Government's role as a regulator and its commercial interests as owner of an industry participant.

With the setting up of Board of Reconstruction of Public Sector Enterprises, the Capital Restructuring Cell in the Office of Controller General of Accounts has been offering their comments on the proposals for consideration of the Board as well as on proposals for restructuring received from administrative Ministries.

**Human Resource Development:** The CGA manages the cadre of the Indian Civil Accounts Service (ICAS) and the entire accounts personnel deployed in civil ministries and is responsible for the entire gamut of personnel management including their recruitment, transfers, promotions, training, and capacity building both within the country as well as abroad, and periodical reviews of cadre strength and distribution.

**Training:** The Institute of Government Accounts and Finance (INGAF) has been setup in the year 1992 under the CGA to meet the training needs of the Civil Accounts personnel. The Institute has developed itself into a centre of academic excellence in the field of Government Accounts and Finance. It acts as a 'think-tank' of the Civil Accounts Organisation providing feedback to the Controller General of Accounts on the training needs and various technical matters.

Besides training the officers and staff of the Civil Accounts Organisation the Institute has also been training personnel of various Ministries and Departments of the Central as well as State Governments. INGAF also provides consultancy services to various Government and autonomous bodies. The Institute has been conducting training for the accounts and finance personnel of several foreign governments under the Internal Technical and Economic Cooperation (ITEC) programme of the Ministry of External Affairs and also under bilateral cooperation. The Institute has its main centre at Delhi and regional centres at Mumbai, Chennai and Kolkata.

**Parliamentary Financial Control:** Monitoring Cell in office of CGA is entrusted with monitoring the progress of submission by Ministries of remedial/corrective Action Plan Taken Notes on recommendations of Public Accounts Committee (PAC), as contained in their reports from time to time. It is further entrusted with the task of coordination, collection and monitoring the submission of Action Taken Notes on various Paras contained in C&AGs Report (Civil). Besides it is also responsible for coordination, collection and timely submission to the Public Accounts Committee of explanatory Notes by Ministries/Depts on "excess expenditure" and "savings" of Rs. 100 crores and above appearing in the annual appropriations accounts. In addition, the Monitoring Cell monitors the receipt of Utilization certificates from Grantee Institutions by various Ministries/Deptt. of Government of India.

Besides training the officers and staff of the Civil Accounts Organisations the Institute has also been training personnel of various Ministries and Departments of the Central as well as State Governments.

INGAF also provides consultancy services to various Government and autonomous bodies. The Institute has been conducting training for the accounts and finance personnel of several foreign governments under the Internal Technical and Economic Cooperation (ITEC) programme of the Ministry of External Affairs and also under bilateral cooperation.

The Institute has its main centre at Delhi and regional centres at Mumbai, Chennai and Kolkata.

### **FINANCE COMMISSION DIVISION**

Finance Commission Division undertakes processing of and follow up action on the various recommendations and suggestions of Finance Commission's reports including issue of Presidential/Executive Orders and sanctions. Under Article 280 of the constitution, a Finance Commission is to be constituted every fifth year or at such earlier time as President on specified aspects of Centre-State Fiscal relations. The recommendations of the Commission together with an Explanatory Memorandum as to the action taken thereon, are laid before each House of Parliament.

The *Twelfth Finance Commission* (TFC) was appointed by the President on 1<sup>st</sup> November 2002 under the Chairmanship of Dr. C. Rangarajan. It submitted its report covering all the aspects of its mandate on December, 17 2004. The TFC report covering the five year period commencing 1<sup>st</sup> April, 2005 together with the Explanatory Memorandum as to the action taken on the recommendations of the Finance Commission was laid on the Table of the both Houses of the Parliament on 26.2.2005. Govt. of India has accepted recommendations of the TFC.

### **Debt Consolidation and Relief Facility (2005-10)**

Debt Consolidation and Relief Facility (DCRF), formulated as per recommendations of Twelfth Finance Commission (TFC) has two components - consolidation of central loans (from Ministry of Finance); and debt waiver. TFC has recommended that the Central loans to States contacted till March 31, 2004 and outstanding on March 31, 2005 (estimated by TFC at Rs. 128,795 crore), may be consolidated and rescheduled for a fresh term of 20 years (resulting in repayment in 20 equal instalments), and an interest rate of 7.5 per cent be charged on them. So far central loans (from Ministry of Finance) of 25 out of 28 States have been consolidated to the extent of Rs. 112076 crore. J&K is among the States that enacted FRBMAs, a prerequisite for availing benefits under DCRF, whose debts are to be consolidated. Debt consolidation has provided interest relief to the State to the extent of Rs. 4392 crore, Rs. 3995 crore and Rs. 3398 crore in 2005-06, 2006-07, 2007-08 and 2008-09 respectively.

The second component of DCRF is debt waiver. Debt waiver for 2005-06 has been awarded to 15 States to the extent of Rs. 3984.35 crore, to 20 States for 2006-07 to the extent of Rs. 4691.56 crore, to 18 States for 2007-08 to the extent of Rs. 4609.55 crore and estimated debt waiver of Rs. 5536.59 crore to 23 States in 2008-09.

### **Share in Central Taxes and Duties and Grants-in-aid**

The 12<sup>th</sup> Finance Commission in their report for the period 2005-10 has recommended a total transfer of Rs. 7,55,752 crore (Share in central taxes and duties of Rs. 6,13,112. Crore and Grants-in-aid of Rs. 1,42,640 crore) to States. The grants-in-aid recommended by TFC under the following sectors and the releases so far are :

(Rs. in crore)

Sl.No.	Purpose of Grant	During 2005-10	Released ( till 29.7.2008)
1.	Local Bodies grants	25000	13124.59
2.	Centre's share in Calamity Relief	16000	10326.86
3.	Non-Plan revenue deficit grants	56856	40871.14
4.	Grant for education	10172	5594.14
5.	Grant for health	5887	3271.38
6.	Grant for maintenance of roads and bridges	15000	8720.48
7.	Grant for maintenance of public buildings	5000	2532.24
8.	Grant for maintenance of forest.	1000	631.34
9.	Grant for heritage conservation.	625	338.94
10.	Grant for State-specific needs	7100	2552.08

### Financing of relief expenditure

The 12<sup>th</sup> Finance Commission has recommended the continuation of the scheme of calamity relief fund in its present form with contribution from the Centre and the States in the ratio of 75: 25.

The Commission has also recommended continuation of the scheme of NCCF in its present form with core corpus of Rs. 500 crore. The outgo from the fund may continue to be replenished by way of collection of National Calamity Contingent Duty and levy of special surcharges.

Out of the Centre's share of CRF, a sum of Rs. 2622.94 crore was released in 2005-06, Rs. 3521.06 crore was released in the year 2006-07 and Rs. 2843.66 crore was released during the year 2008-09 (upto 30.7.2008) to the States.

Out of the NCCF, central assistance of Rs. 3061.44 was released during the year 2005-06 and Rs. 1962.05 crore during the year 2006-07 and Rs. 373.88 crores released during 2007-08 and 321.31 crore released during 2008-09 (as on 29.07.08), to the States towards calamities of rare severity.

### Office of Chief Adviser (Cost)

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

It was set up as an independent agency of the Central Government to verify the cost of production and to determine the fair selling price for Government Departments including Defence purchases in respect of the cases referred to. The role of the office was further enlarged and extended to fixing prices for a number of products covered under the Essential Commodities Act, such as, Petroleum, Steel, Coal, Cement, etc. under the Administered Price Mechanism (APM). Since cost/pricing work in the Ministries increased significantly, various other Ministries/Departments started to have their in house expertise by seeking posting of services of officers for work needing expertise in cost/commercial accounts matters.

As a repository of expertise in cost, management and financial accountancy in government, this office is rendering professional assistance to different Ministries and Government agencies. In the Post liberalization era, the office is receiving and conducting studies in synchronization with the liberalization policy of the Government in addition to the traditional areas of cost-price studies. The office of the CAC ventured into new areas and is conducting studies having greater relevance to the changing situation.

Chief Adviser Cost Office, as a repository of expertise in Cost and Management Accounting matters, over the years, had emerged as a prime professional agency in dealing with matters relating to costing and pricing, studies on cost reduction, cost efficiency, industry level studies for determining fair prices, studies on user charges, central excise abatement matters, cost-benefit analysis of projects, Commercial Financial Management analysis, appraisal of capital intensive projects, profitability analysis and application of modern management tools evolving cost and commercial financial accounting etc.

Chief Adviser Cost's Office is also cadre controlling office for the Indian Cost Accounts Service (ICAS) and render advice on matters relating to the cadre administration including training requirements of the officers for continuous up-gradation of their knowledge and skills, besides being responsible for undertaking various type of studies referred to above. The office also provides necessary coordination, input and training for proper human resource development of ICAS Officers in addition to rendering professional guidance to the ICAS officers working in different participating organizations.

The major areas of professional functions of the office of the Chief Adviser Cost are as under: -

- (i) Assisting all Central Government Ministries/Departments/ Organizations/ State Governments/Union Territories in solving complex Price/Cost related issues, in fixing fair prices for various services/products and rendering advice to various Ministries/Departments in cost matters.
- (ii) Examination/Verification of claims between Government Departments/ Public Sector undertakings and suppliers arising out of purchase contracts.
- (iii) Determining prices of products and services supplied to Government, in order to enable Government Departments to negotiate the prices with the supplying organizations.
- (iv) Unit specific as well as industry level studies for determining cost/fair prices and making recommendations for fair prices/rates for products and user charges for services, revision of these charges and also to determine reasonableness of prices charged, duty structure, etc.
- (v) Valuation of assets and liabilities of business taken over and shares of public sector undertakings.
- (vi) Functioning as Chairman/Members of Committee constituted by Government/ different Departments related to Cost/financial and Pricing matters.
- (vii) Cost and performance audit of industrial undertaking.
- (viii) Concurrent Internal audit of Escalations claims of urea manufacturing units determined by Fertiliser Industry Coordination Committee.
- (ix) Subsidy detrimental and verification of claims.

- (x) Cost Accounting System for departmental undertakings/ Autonomous bodies.
- (xi) Time and Cost Overruns of major projects. Efficiency and Competitiveness studies.
- (xii) Arbitrator in resolving pricing disputes.
- (xiii) Determination of value for purposes of Central Excise.
- (xiv) Determination of Abatement Rate for purposes of Central Excise.
- (xv) Review of special audits u/s 14 A of the Central Excise Act.

Till March 2008, 8034 number of studies/reports were completed by the Office of Chief Adviser Cost and out of this 176 reports were completed during the year 2007-08. The studies completed during the year varied widely in nature and may be broadly categorized under the following heads:

- (i) Pharmaceutical Industry
  - Determination of norms for Conversion Cost, Packing Charges and Process Loss for fixation of prices of Drug formulations under DPCO 1995.
- (ii) Review of costing system and fixation of common hourly rates and overhead percentage in respect of Government of India Presses
- (iii) Study on User Charges for Department of Posts.
- (iv) Fair price of goods purchased/services purchased by various Government Department on single tender basis or from limited sources - Analysis of cost of Interceptor Boats.
- (v) Fair selling price of products/service where Govt. is the Producer/Service provider as well as the user
- (vi) Fixation of service charges for the services rendered by a Govt. Department/ Agency on behalf of the other
- (vii) Determination of subsidy for catering (Parliament House Complex and Prime Minister's Office)
- (viii) Preparation of final accounts on accrual accounting principles in case of Departmental manufacturing units
- (ix) Concurrent Audit of escalation claims paid by FICC
  - 120 Reports in respect of Concurrent Audit of Equated Freight Rate/ Escalation claim of various Fertilizer companies were issued during the year 2007-08.
- (x) Other studies :
  - Reports of the committee constituted to determine the amount to be paid to Dredging Corporation of India by M/s. Sethusamudram Corporation Ltd. for the Sethusamudram Ship Channel Project.
  - Review of cost of opium for fixation of its export price.
  - As a member of the committee constituted to work out the pricing method for Iron Ore for PSUs, submitted details on the cost price and the profit structure of Iron Ore units.
  - Note on issue relating to supply and pricing of Natural Gas as directed on the meeting of committee of Secretaries.
  - Report on issues relating to stock losses in the down stream marketing operation upto the dispatch points.

- Review of deviation with reference to fair cost structure of Indian Sugar Industry 2004-07.
- Note on increase in subsidy outgo due to use of costlier feed stock (Naphtha) etc. in place of Natural Gas in urea production by Fertilizer Unit.
- Report as a member of the committee to consider time and cost over run of CSIR Network Project on 'Spearheading Small Civilian Aircraft, Design, Development & Manufacture-CSIR.

### **Major Committees Represented**

Officers of Chief Adviser Cost Office because of their expertise in commercial accounting have also served as Chairman/Members on the following major multi-disciplinary Inter-Ministerial/Expert Committees:

- (1) National Pharmaceuticals Pricing Authority, Department of Chemicals Petrochemicals
- (2) Board of Governors and the society of the National Institute of Financial Management (NIFM), Faridabad.
- (3) Advisory Committee on Abatement for Excise Duty and Service Tax – Department of Revenue.
- (4) Governing Body of Tear Smoke Unit, BSF, Tekanpur.
- (5) Standing Committees set up by various Ministries/Departments for fixation of responsibility for time and cost overrun.
- (6) Fertilizer Industry Coordination Committee, Department of Fertilizers.
- (7) Committee to consider the procurement of agricultural commodities under the Market Intervention Scheme.
- (8) Committee to monitor the construction of 400-pax-cum-100 tonne cargo vessel for Andaman & Nicobar Administration and Lighthouse Tender Vessels for Department of Lighthouses and Light Ships by HDPE Ltd.
- (9) Committee for the study of pricing/costing of services and products of Survey of India.
- (10) Committee to evaluate the proposal of C-DAC for comprehensive computerization of the operations in the Patent Office, Controller General of Patents, Designs & Trademarks, Department of Industrial Policy and Promotion.
- (11) Advisory Committee constituted for examination of draft Cost Accounting Rules framed by the Department of Company Affairs in respect of various products.
- (12) Standing Committee of State Secretaries of Stamps and Registration.
- (13) Committee on operationalisation and implementation of energy saving measures in the Central Government Buildings/establishments.
- (14) Committee for uniform costing and preparation of proforma accounts for various mints and presses.
- (15) Committee of Experts/Stakeholders to fix and approve Benchmark Costs of System to be used in RVE programme.
- (16) Committee to examine issues relating to under recoveries of the PSU Oil Marketing Companies.

- (17) Committee to have in-depth study of various policies and practices outlined in the draft accounting manual for Government of India Presses.

### **Emerging Role of Chief Adviser Cost Office**

After liberalization of Indian economy, there has been substantial change in the economic and industrial scenario. The importance of the cost has become much more important than ever before in the competitive atmosphere. The role of the Government is also rapidly changing from the administrator to facilitator and regulator. In the changed scenario, the role of Office of Chief Adviser Cost is expected to be enlarged and in addition to the functions being performed at present, it would be focusing on the following new areas in the coming years:

- To act as a pivotal body for determination of User Charges.
- To function as residual regulatory authority as it is not practical to create such authority in each sphere/for each Ministry and its cost effectiveness too.
- Provide professional expertise to regulatory authorities.
- Technical audit of subsidy determination/tariff/price fixation/regulatory authorities.
- (i) Concurrent Internal audit of various subsidy claims paid by different Ministries/ Departments.
- (ii) Abatement of Excise duty and Service Tax- Representation of various industries.
- (iii) To act as a pivotal body for determination of User Charges of various public utilities e.g. information & broadcasting, higher education, public health, water supply, transport, tourism, etc.
- (iv) To assist revenue authorities in matters relating to and arising out of transfer pricing.
- (v) Social Cost benefits Analysis study of various Government Department/ Autonomous bodies.

### **REVENUE**

The Department of Revenue exercises control in respect of revenue matters relating to direct and indirect Union taxes, through two statutory Boards, namely, the Central Board of Direct Taxes and the Central Board of Excise and Customs. The Department is also entrusted with administration and enforcement of controls and regulatory measures provided in the enactments concerning central sales tax, stamp duties, forfeiture of properties of smugglers and foreign exchange manipulators, and other fiscal statutes. Control over production and disposal of opium and its products is also vested with this Department.

### **DIRECT TAXES**

The Income tax Department administers a number of Direct Tax Acts, namely, the Income Tax Act, 1961, the Wealth Tax Act, 1957, the Gift Tax Act, 1958, Interest Tax Act, 1974, Securities Transaction Tax Act, 2004, Banking Cash Transaction Tax Act, 2005 and Fringe Benefit Tax Act, 2004. Table 13.5 gives figures of revenue collection under the major Heads of direct taxes from the 1999-2000 onwards.

Table 13.5 : DIRECT TAXES

(Rs in crore)

Taxes	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	*2006-07
Corporation Tax	30,696	36,609	46,172	63,562	82,680	101277.16	143260
Income Tax	31,764	32,004	36,866	41387	49268	55984.62	74213.04
Interest Tax	414	189	-275	-46	50	13.24	5.02
Securities Transaction Tax	-	-	-	-	590	2559.38	4648.00
Banking Cash Transaction Tax	-	-	-	-	-	321.33	502
Fringe Benefit Tax	-	-	-	-	-	4772.35	242.70
Wealth Tax	132	135	154	136	145	250.35	242.70
Gift Tax	-0.30	(-)	(-2)	1	2	1.96	4.45

\*Figure for the Financial Year 2006-07 are Provisional.

### Major changes in Direct Taxes

Though the Finance Act, 2007 the basic exemption limit has been enhanced to Rs. 1,10,000/- . Tax will be levied at the rate of 10% on incomes between Rs. 1,10,000 and Rs. 1,50,000/-. On incomes between Rs. 1,50,000/- and Rs. 2,50,000/-, tax will be levied at 20%. On incomes exceeding Rs. 2,50,000/-, tax will be levied at the rate of 30%. However the basic exemption limit for a resident woman, below 65 years of age, has been enhanced to Rs. 1,45,000/-. Also the basic exemption limit for a resident individual, who is of the age of 65 years or more at any time during the previous year, has been enhanced to Rs. 1,95,000/-. The tax rates for firms and domestic companies continue to remain 30%. Surcharge and education cess rates also remain the same as in earlier year. However, companies and firms would be liable to surcharge only if their income exceeds Rs. 1 Crore. Further an additional cess, called the "Secondary and Higher Education Cess on income-tax", has been levied at the rate of 1% of income-tax and surcharge (not including the existing 2% "Education cess on income-tax") has been levied in all cases.

### MEASURES UNDERTAKEN BY FINANCE ACT, 2007

#### Revenue Mobilisation Measures

- (a) As per the earlier definition of 'India' is deemed to include the Union territories of Dadra and Nagar Haveli, Goa, Daman and Diu, and Pondicherry. This definition has been substituted with a new definition, whereby 'India' has been defined to mean 'India' as defined in Article 1 of the Constitution of India, its territorial waters, seabed and subsoil underlying such waters, continental shelf, exclusive economic zone or any other maritime zone as referred to in The Territorial Waters, Continental Shelf, Exclusive Economic Zone and Other Maritime Zones Act, 1976, and the airspace above the territory and territorial waters of India.
- (b) To make tax benefits focused and to channelise existing as well as future investments in key, risk-prone thrust areas, Income-tax exemption has been restricted to income of a venture capital company or venture capital fund from investments in venture capital undertakings engaged in 9 select key venture areas.

- (c) The rate of dividend distribution tax on any amount declared, distributed or paid by a domestic company has been raised from 12.5% to 15%. The rate of DDT has been raised as the incidence of tax at 12.5% is low as compared to the marginal tax rate of 30% in the case of recipients. Further, as per data gathered from corporate tax returns, filed electronically till 31.12.2006, the effective corporate tax rate continues to be low at 19.26% indicating that dividends are being paid out of profits that have been suffered full tax.
- (d) Tax has been levied on income distributed by a money market mutual fund or a liquid fund at the rate of 25%. This income was earlier taxable at the concessional rate of 12.5% (when distributed to individuals/HUFs) and 20% (when distributed to others) under section 115R of the Income tax Act. Tax on income distributed by other debt funds other than a Money Market Mutual Fund or liquid fund will continue to be levied at the aforesaid rates of 12.5% and 20% respectively.
- (e) Section 115JB has been amended to provide that companies available deduction under sections 10A and 10B of the Income-tax Act would now be liable to pay Minimum Alternate Tax (MAT).
- (f) Sections, 115WB and 115WC of the Income-tax Act have been amended to bring Employee Stock Option Plans (ESOPs) within the ambit of Fringe Benefit Tax (FBT). The value of fringe benefits arising from grant of ESOPs to employees would be the difference between the fair market value of the shares on the date of vesting and the price paid by the employee to acquire the shares.

### **Rationalisation & Simplification Measures**

- (a) To streamline the procedure relating to registration of charitable and religious trusts and institutions in line with the recommendations of the 5th Report of the Parliamentary Committee on Subordinate Legislation (14th Lok Sabha), the existing requirement for a trust or institution to file an application for income-tax registration within one year from the date of its creation or establishment has been removed. Besides, on such registration, the discretion vested with the Commissioner to determine the period from which the exemption shall be allowed has been removed. The registration will accordingly be available from the financial year in which such application is made.
- (b) Exemption on income is allowed in respect of certain charitable and religious entities, only if they are notified by the Central Government in the Official Gazette. This power has been decentralized by allowing the exemption to such entities, as may be approved by the prescribed authority. Such prescribed authority will be the Chief Commissioner/Director General authorised for this purpose by CBDT. No notification for such exemption will be issued by the Central Government on or after 1st day of June, 2007.
- (c) Deduction in respect of any provision for bad and doubtful debts to be allowed in the case of cooperative banks under section 36(1)(viiia).
- (d) Rationalisation of provisions relating to deduction in respect of creation and maintenance of special reserve under section 36(1)(viii).
- (e) With a view to avoid delay in settling cases by the Income tax Settlement Commission, which is caused because of factors like duplication of proceedings, absence of statutory time frame, the procedure for settling the cases by the Commission has been streamlined.

- (f) Provisions of Banking Cash Transaction Tax (BCTT) have been amended so as to exclude the offices or establishments of the Central Government and governments of the state from purview of BCTT. The existing limit of taxable banking transactions have been enhanced from the present Rs. 25,000 to Rs. 50,000 in the case of individuals and Hindu Undivided Family.
- (g) Amendment relating to carry forward and set off of accumulated loss and unabsorbed depreciation allowance in amalgamation or demerger has been carried out so as to facilitate tax neutral amalgamation/demerger of public sector companies engaged in the business of operation of aircraft and also in the case of cooperative banks.

#### **Welfare Measures for taxpayers**

- (a) To allow Investor Protection Funds of commodity exchanges to have adequate funds for undertaking activities relating to the welfare of investors, exemption has been provided to income of notified investor protection funds by way of contributions received from commodity exchanges and the members thereof, on the lines as is presently available to investor protection funds set up by recognised stock exchanges.
- (b) To grant income-tax exemption to compensation received by victims and their families on account of disaster, exemption from tax has been provided in respect of compensation received or receivable from the Central Government or a State Government or a local authority by an individual or his legal heir.
- (c) Section 80C of the Act has been amended so as to include rural bonds issued by NABARD, and notified by the Central Government, as an additional investment avenue for investors seeking tax benefit under the said section.
- (d) Keeping in view that research and development still needs some fiscal support for a few more years, weighted deduction under clause (1) of sub-section (2AB) of section 35 to be allowed for five more years.

#### **Measures for Socio-Economic Development**

- (a) To enable urban local bodies to raise funds for capital investment in urban infrastructure, exemption has been provided on interest on notified bonds issued by a notified State Pooled Finance Entity, on behalf of urban local bodies.
- (b) The deduction under section 80-IA has been extended to the business of operating a natural gas distribution network with a view to reduce the subsidy bill of the Government on account of subsidized LPG cylinders as it is expected that natural gas would substitute LPG.
- (c) Sub-section (4) of section 80-1B of the Income-tax Act provides that industrial undertakings engaged in manufacture or production of articles or things or operation of a cold storage plant and set up during the period beginning on 1st April, 1993 and ending on 31st March, 2007, in the State of Jammu and Kashmir, are eligible for a hundred per cent, deduction of profits for a period of five assessment years, followed by twenty-five per cent. (thirty per cent, in the case of a company) for the next five assessment years. The terminal date for setting up of industrial undertakings and commencement of eligible business in the State has been extended by five more years, i.e., from 31.3.2007 to 31.3.2012. The amendment has been carried out with a view to promote the industrial development of the State of Jammu and Kashmir.

- (d) A new section 80-ID has been inserted in the Income-tax Act to provide for deduction in respect of profits and gains derived from the business of hotels and convention centres in the National Capital Territory of Delhi and districts of Faridabad, Gautam Budh Nagar, Ghaziabad and Gurgaon. The amendment has been carried out with a view to provide adequate stock of hotel rooms to meet the requirement for accommodating the visitors for the Commonwealth Games which is to be hosted in Delhi in 2010 and also to boost the number of convention centres.
- (e) Government has approved a package of fiscal incentives and other concessions for the North-East Region, namely, the North-East Industrial and Investment Promotion Policy (NEIIPP) 2007. A new section 80-IE has been inserted in the Income-tax Act, 1961 by the Finance Act, 2007 to give effect to the recommendations of North-East Industrial and Investment Promotion Policy (NEIIPP) 2007.

#### **Amendment in TDS provisions**

- (a) Amendment of section 193 of the Income-tax Act, 1961 to provide for TDS on 8% Savings (Taxable) Bonds, 2003.
- (b) Increasing the threshold limit for TDS to Rs. 10,000/- under Section 194A in respect of interest payable by a banking Company or a co-operative society or on any deposit with post Office under any notified central government scheme.
- (c) Reduction in the rate for deduction of tax at source on rent for the use of any machinery or plant or equipment under Section 194-I to 10% from the earlier 15% or, as the case may be 20%.
- (d) Enhancement of the rate of TDS under section 194J, requiring deduction of tax on fees for professional services or fees for technical services, to 10% from 5%.
- (e) Increase in the rate of TDS under section 194H, requiring deduction of tax at source on payment of commission or brokerage, to 10% from the earlier 5%.

## **II. INDIRECT TAXES**

Customs, Union Excise and Service Tax duties are the major sources of Indirect Tax revenue. The revenue for the year 2006-07 (Prov.) in respect of Customs, Union Excise duties and Service Tax are Rs. 86,304/- crore, Rs. 1,18,121/- crore and Rs. 37,482/- crore respectively.

### **CUSTOMS**

#### **I. Peak rate of Ad-valorem Customs duty**

As part of continuous process of bringing about a moderate, rational and simplified tax structure, the peak rate of customs duty on non-agricultural products was reduced from 12.5% to 10% in Budget 2007-08 with a few exceptions. Ad-valorem component of customs duty on textiles fabrics and garments was also reduced from 12.5% to 10%. The specific component, however, has been left unchanged. Thus, at present, the two major ad-valorem rates of customs duty are 5% and 10%

#### **II. Other Budgetary Changes**

Other major changes introduced in the Budget 2007-08 on Customs tariff are given below :

**A. ADDITIONAL DUTY OF CUSTOMS**

The following items have been exempted from the prevailing 4% Additional duty of Customs:

- a) All edible oils, crude as well as refined.
- b) Roasted molybdenum ore and concentrate.

Exemption of the duty to Cell phone parts, components and accessories have been extended till 30.06.2009.

**B. METALS AND THEIR INPUTS**

Customs duty has been reduced from 20% to 10% on seconds and defectives of Iron and Steel.

**C. EXPORT DUTY**

Export duty has been imposed on :

- a) Iron ores and concentrates, all sorts @ Rs. 300/- per metric tonne.
- b) Chromium ores and concentrates, of all sorts @ Rs. 2000/- per metric tonne.

**D. SECONDARY AND HIGHER EDUCATION CESS**

An Education Cess @ 1% has been imposed on total import duties of Customs. The proceeds from this cess shall be utilized to finance secondary and higher education.

**E. AIRCRAFTS**

Customs duty of 3%, CVD of 16% and SAD of 4% have been imposed on aircrafts and it's parts, which are imported for use in such aircrafts.

Imports by Government and scheduled airlines in this regard, have been exempted from these levies.

Aircraft, not registered in India, which are brought for the purpose of flight to or across India and ultimately removed within six months from the date of arrival are, however, exempted from all duties of customs.

**F. CHEMICALS AND PETROCHEMICALS**

Customs duty has been reduced from 12.5% to 7.5% on goods falling under Chapter 28 (except Titanium Dioxide), Chapter 29 (except Mannitol, Sorbitol and Caprolacium), Chapter 31, and goods falling under headings 3201 to 3207 (except pigments and preparations based on Titanium Dioxide), 3403, 3801 to 3807, 3809 (with few exceptions), 3810, 3812, 3816, 3817, 3821, 3824 (except 3824 60), 3901 to 3907 and 39909 to 3915, from 30% to 20% on glycerol waters and glycerol lyes, from 10% to 7.5% on Denatured ethyl alcohol and 12.5% to 10% on Titanium Dioxide and pigments and preparations based on Titanium Dioxide.

**G. AGRICULTURE**

Customs duty has been reduced from 7.5% to 5% on food processing machine and sprinklers and drip irrigation system used for agriculture and horticulture purposes, from 65% to 50% on crude sunflower oil, from 75% to 60% on refined sunflower oil and from 30% to 20% on Dextrose monohydrate.

Concessional rate of 5% customs duty plus Nil CVD/excise duty presently available to specified plantation machinery upto 30.04.2007, has been extended upto 30.4.2009.

**H. TEXTILES**

Customs duty has been reduced from 10% to 7.5% on polyester staple fibers and two, polyester filament yarns, polyester chips, DMT, PTA and MEG.

**I. EXPORT PROMOTION**

Customs duty has been reduced from 5% to 3% on cut and polished diamonds, 12.5% to 5% on rough synthetic gemstones and 30% to 10% on un-worked or simply prepared corals, Raw, tanned or dressed fur skins have been exempted from CVD of 8%.

**J. RESEARCH & DEVELOPMENT**

Present concessional rate of 5% customs duty plus nil CVD on specified items, available to public funded and non-commercial research institutions, has been extended to all research institutions registered with the Department of Scientific & Industrial Research, subject to certain conditions. The list of the specified items for pharmaceutical and biotechnology sector presently attracting concessional rate of 5% Customs duty, has been extended by including 15 additional items.

**K. HEALTH**

Customs duty has been reduced from 12.5% to 7.5% on medical equipment.

**L. PROJECT IMPORT**

Customs duty of 7.5% has been imposed on Digital Cinema Development Projects.

**M. MISCELLANEOUS**

- I. Customs duty has been reduced from 5% to Nil on :
  - (a) dredgers
  - (b) high ash coking coal
- II. Customs duty has been reduced from 10% to 5% on
  - a. butyl rubber
  - b. borax or boric acid
  - c. frit
- III. Customs duty has been reduced from 12.5% to 5% on
  - (a) Specific ceramic colours
  - (b) Watch dials and movements
  - (c) Parts of umbrella, including umbrella panels.
- IV. Customs duty has been reduced from 5% to 2% on natural baron ore and 30% to 20% on dammar batu and pet food.
- V. A uniform customs duty rate of 5% has been prescribed for urea unconditionally.
- VI. Aramid yarns for manufacture of bulletproof jackets for supply to armed forces have been exempted from both customs duty and CVD.

**N. WITHDRAWAL OF EXEMPTIONS**

- I. Customs duty exemptions/concessions have been withdrawn on following items:
  - a) chemicals, for use in the manufacture of Centchroman;
  - b) Codeine phosphate or Nicotine, imported by Government alkaloid factories;

- c) Recorded magnetic tapes for producing TV serials;
  - d) Specified goods like TV cameras (professional grade), audio recording equipment, tabletop desk production video machine, 8 channel video mixer /switches etc.;
  - e) Specified goods for manufacture of fly ash based goods.
- II. CVD/Excise duty exemptions on the following items have been withdrawn:
- a) Cold-set high speed printing machine for newspapers. Such machines will attract excise duty/CVD at 8%.
  - b) Specified parts of set top boxes.

## **CENTRAL EXCISE**

### **Budgetary Changes**

Major changes introduced in the Budget 2006-07 on Central Excise tariff are given below:

#### **A. SECONDARY AND HIGHER EDUCATION CESS**

A Education Cess @ 1% has been imposed on excisable goods manufactured in India. The proceeds from this cess shall be utilized to finance secondary and higher education.

#### **B. RELIEF MEASURES**

Excise duty has been fully exception on package biscuits of MRP not exceeding Rs. 50 per kg. food mixes (including instant food mixes), specified water purification devices based on membrane technology, household water filters not using electricity and pressured tap water and biodesels.

Excise duty has been reduced from 16% to 8% on umbrellas, plywood, venerated panels and similar laminated wood, footwear parts falling under heading 6406, wadding and gauze.

#### **C. PETROLEUM**

Ad volorem component of excise duty on petrol diesel has been reduced from 8% to 6%.

#### **D. TEXTILES**

Excise duty has been reduced from 16% to 12% on caprolactum and nylon chips and benzene for manufacture of caprolactum.

Optional excise duty @ 12% has been prescribed on fishnet grade nylon yarns, fishnet fabrics, fishnet twine and fishnets.

An excise duty of 8% has now been imposed on specified textile machinery, which used to attract nil excuse duty.

#### **E. SMALL SCALE INDUSTRIES**

Exemption limit for SSI scheme has been increased from Rs. 1 crore to Rs. 1.5 crore w.e.f. 01.04.2007.

#### **F. RESEARCH AND DEVELOPMENT**

Exemption of excise duty has been extended to specific items domestically procured by all research institutions registered with Department of Scientific and Industrial Research, subject to certain conditions.

## G. METALS

The rate of compounded levy on aluminium circles has been increased from Rs. 7500/10000 per machine per month of Rs. 12000 per machine per month.

## H. TOBACCO PRODUCTS

I. Specific rates of total excise duty on cigarettes have been revised as under :

S.No.	Description	Present rate	Proposed rate
	<b>Non-Filter Cigarettes</b>		(Rs. per 1000)
1.	Not exceeding 60 mm in length	160	168
2.	Exceeding 60 mm but not exceeding 70 mm	520	546
3.	<b>Filter Cigarettes</b>	780	819
4.	Not exceeding 70 mm in length	1260	1323
5.	Exceeding 70 mm but not exceeding	1675	1759
6.	75 mm	2060	2163
7.	Exceeding 75 mm but not exceeding 85 mm	1150	1208
	Other cigarettes		
	Cigarettes and tobacco substitutes		

II. Specific rates of total excise duty (including cess) on biris have been revised as under:

- (a) Biris, other than paper rolled and manufactured without the aid of machines from Rs. 12 to Rs. 16 per thousand.
- (b) Other bisris from Rs. 22 to Rs. 29 per thousand.

III. The exemption limit of 20 lakh unbranded biris in a financial year will now be subject to the condition that any person wanting to avail of the exemption has to file a declaration with the Central Excise Department.

IV. Excise duty on pan masala not containing tobacco, falling under 2106, 9020, has been reduced from 66% to 45%. Consequently, the abatement from maximum retail price has been reduced from 50% to 44%.

## I. CEMENT

### (a) General rate

- i) Excise duty has been reduced from Rs. 400 per metric tonne to Rs. 350 per metric tonne for cement of retail sale price not exceeding Rs. 190 per 50 kg. bag or per metric tonne retail sale price equivalent not exceeding Rs. 3800.
- ii) Excise duty has been increased from Rs. 400 per metric tonne to Rs. 600 per metric tonne for cement of declared retail sale price not exceeding Rs. 190 per 50 kg. bag or per metric tonne retail sale price equivalent exceeding Rs. 3800.

### (b) Mini cement plants

- iii) Excise duty has been reduced from Rs. 250 per metric tonne to Rs. 220 per metric tonne for cement of declared retail sale price not exceeding Rs. 190 per 50 kg. bag or per metric tonne retail sale price equivalent not exceeding Rs. 3800.

- iv) Excise duty has been increased from Rs. 250 per metric tonne to Rs. 370 per metric tonne for cement of declared retail sale price not exceeding Rs. 190 per 50 kg. Bag or per metric tonne retail sale price equivalent exceeding Rs. 3800.
- v) Cement has been included in the Third Schedule of the Central Excise Act to provide that in relation to products of heading 252329, packing or repacking in unit container, labeling or re-labelling packages, including the declaration or alternation of retail sale price on it or adoption of any other treatment to render the product marketable to the consumer, shall amount to 'manufacture'.

## **J. INFORMATION TECHNOLOGY**

'USB flash memory' and 'DVD drive' were exempt from excise duty. Now the exemption has been extended to 'flash memory' in general and 'DVD drive/DVD writer'.

## **K. WATER SUPPLY PROJECTS**

In addition to the present exemption of excise duty for pipes used for taking water from water treatment plant, including its reservoir, to the first storage point, exemption has now been extended to all pipes of outer diameter exceeding 20 centimeter, when such pipes are integral part of water supply project, irrespective of its use.

## **L. RETAIL SALE PRICE (RSP) BASED ASSESSMENT**

RSP based assessment has been extended to personal computers (including laptop and other portable computers), printers, monitors, computer keyboards, scanners, computer mouse, computer plotter, facsimile machines, modems and set top boxes.

## **M. WITHDRAWAL OF EXEMPTIONS**

- I. Excise duty exemptions/concessions on following items have been withdrawn
  - a. Chemical reagents manufactured by Hindustan Antibiotics Ltd. For use in manufacture of kits for testing narcotics drugs and psychotropic substances;
  - b. Optical glass manufactured by the Centre Glass and Ceramic Research Institute, Calcutta for use by any department of the Central Government.
  - c. Goods like brooms, hand operated mechanical floor sweepers, mops, feather dusters, prepared knots and tufts of broom and brush, pain pads and rollers, squeezes etc.
  - d. Recorded video cassettes intended for television broadcasting, supplied in formats such as U-matic, Betacam or any similar format;
  - e. Nicotine polacrilex gum;
  - f. Dust and powder of synthetic stones.
- II. Exemption from excise duty on pan masala containing tobacco and other tobacco products manufactured by specified units in the North East Region have been withdrawn.

## **SERVICE TAX**

### **I. Secondary and Higher Education Cess**

A cess of 1% has been imposed on the service tax on the services liable to service tax. The cess paid on input services is available as credit for payment of cess on output services.

## II. Other Budgetary Changes

Other major changes introduced in the budget 2007-08 are given below :

### A. Following services have been individually specified taxable services.

- (1) Telecommunication service (includes various telecommunication related services which are presently specified as separate taxable services);
- (2) Services outsourced for mining of mineral, oil or gas;
- (3) Services provided in relation to renting of immovable property, other than residential properties and vacant land, for use in the course or furtherance of business or commerce (such services provided by or to a religious body are excluded).
- (4) Development and supply of content for use in telecommunication services, advertising agency services and on-line information and database access or retrieval services;
- (5) Asset management services including portfolio management and all forms of fund management service provided by any person, except a banking company or a financial institution including a non-banking financial company or any other body corporate or commercial concern;
- (6) Design services;
- (7) Services provided in relation to the execution of a works contract.

### B. Scope of specified taxable services has been amended as follows

- 1) To include :-
  - i) sale of space in business directories, yellow pages and trade catalogues which are primarily meant for commercial purposes under sale of space or time for advertisement service;
  - ii) renting of motor vehicles capable of carrying more than twelve passengers under rent-a-cab service, Motor vehicle or Mexican rented to an educational body, other than a commercial training and coaching centre, will be excluded from the scope of the service;
  - iii) services provided in relation to marriage functions under man-day keeper service, pandal or shamiana service and event management service;
  - iv) computer hardware engineering consultancy under consulting engineer's service;
- 2) To amend,-
  - i) Banking and other financial services, so as to :
    - (a) Substitute the words "any others person" with "commercial concern" in the definition of taxable service;
    - (b) Include cash management within its scope; and
    - (c) Explain the term "financial leasing";
  - ii) Management consultant service so as to rename it as management or business consultant service and to include explicitly business consultancy within its scope;
- 3) To clarify that,-
  - i) Recruitment or supply of manpower service includes services in relation to:

- a) Pre-recruitment screening
  - b) Verifying the credentials and antecedents of the candidate; and
  - c) Authenticity of documents submitted by the candidates;
- ii) "goods" referred to in management, maintenance or repair service includes computer software.

### C. Exemptions from Service Tax

1. The threshold limit of service tax exemption for small service providers is being increased from the present level of Rs. 4 lakh to Rs. 8 lakh.
2. Exemption from service tax is being provided to :-
  - i. All taxable services provided by Technology Business Incubators (TBI)/ Science and Technology Entrepreneurship Parks (STEP) recognized by National Science and Technology Entrepreneurship Board of Department of Science & Technology also known as "incubators";
  - ii. Taxable services provided by an incubate (entrepreneur) whose total business turnover in a year does not exceed Rs. 50 lakh and is located within the premises of an incubator, subject to specific conditions;
  - iii. Services provided by resident welfare association to their members, where the monthly contribution of a member does not exceed Rs. 3000/- per month.
  - iv. Services provided in relation to delivery of content of cinema in digital form after encryption, electronically;
  - v. Technical testing and analysis services provided in relation to testing of new drugs, including vaccines and herbal remedies, on human participants by a Clinical Research Organisation (CRO) approved to conduct clinical trials by the Drugs Controller General of India.

### CENTRAL SALES TAX (CST)

The Central Sales Tax is levied under the provisions of the Central Sales Tax Act, 1956 on the sale of goods of the course of inter-State trade or commerce. The Central Sales Tax is levied by the Central Government by virtue of Entry 92A of the Union List, but the same is assigned to the States within which the tax is leviable, by virtue of provisions of Article 269 of the Constitution of India. It is an accepted fact that the CST, being an origin-based tax, is inconsistent with VAT (which is a destination based tax). Moreover, CST is a cascading-type tax since it is not rebatable against VAT. Hence, it is agreed that CST should be phased out.

In fact, after extensive consultations between the Centre and the States, the roadmap for phasing out the CST by 31.03.2010 (i.e. before the date appointed for introduction of GST) has been finalised. The package of compensation to the States for revenue loss on this account has also been finalised. Accordingly, the process of phasing out of the CST has been started with reduction in CST from 4% to 3% w.e.f. 01.04.2007. It is proposed to reduce the CST further by 1% on 1st April every year.

### IV. STATE LEVEL VALUE ADDED TAX (VAT)

Introduction of State VAT is the most significant tax reform measure at State level. The State VAT has replaced the earlier Sales Tax systems of the States. VAT, being a 'tax on sale or purchase of goods within a State' is a State subject, is a State Subject by virtue

of Entry 54 of List II (State List) of the Seventh Schedule of the Constitution of India. The Government of India has constituted an Empowered Committee of State Finance Ministers (EC) to deliberate upon and decide all issues concerning Sales Tax Reforms/ State VAT. The State VAT has been introduced by all the States/UTs except Uttar Pradesh.

Since Sales Tax/VAT is a State subject, the Central Government has been playing the role of a facilitator for successful implementation of VAT. Some of the steps taken by the Central Government in this regard are as follows :

- a) A package for payment of compensation to States for any revenue loss on account of introduction of VAT has been implemented.
- b) Technical and financial support is being provided to North Eastern/Special-category States to enable them to take up VAT computerisation.
- c) Financial support has been provided to the Empowered Committee as well as the States for undertaking VAT related publicity and awareness campaigns.
- d) 50% funding is being provided to the EC for implementation of the TINXSYS Project for tracking of inter-State transactions.

The experience with implementation of VAT has been very encouraging so far. The new System has been received well by all the stake-holders. The transition to the new system has been quite smooth. The provisional tax revenues of VAT implementing States registered an increase of 13.8% during 2005-06 and about 21% during 2006-07.

#### **Rationalization of Instruments under Indian Stamp Act, 1899**

A High level Expert Committee on Corporate Bonds and Securitisation (under Chairmanship of Dr. R.H. Patil, Chairman, UTI) was constituted. The Committee has recommended for rationalization of certain instruments under Indian Stamp Act, 1899 namely Debentures (Article 27), Bonds in the nature of Promissory Notes (Article 49) and Assignment etc. The recommendations of the Committee have been accepted by the State Governments in the meeting of Standing Committee of State Secretaries on Stamps and Registration held on 11.05.2007 at NIPFP. The new rates on these instruments are in the process of Notification.

#### **V. Goods and Services Tax (GST)**

Goods and Services Tax (GST) means taxation of goods and services in an integrated manner, and not separately as is being done now. The line of demarcation between goods and services is getting blurred, which has made separate taxation of goods and services untenable. Integrated Goods & Service Tax (GST), based on VAT principles, has evolved as the most modern and efficient form of indirect taxation and the same has been adopted by a large number of countries (including Federal countries) around the world. Even in European countries, coverage of VAT includes both goods and services. In India also, the process of indirect taxation has been evolving on the lines of VAT and introduction of an integrated GST would be the natural culmination of the tax reform efforts of last about two decades.

The Central Government has set 01.04.2010 as the target date for introduction of GST. Since introduction of GST would involve restructuring of Central as well as State Taxes, the process of introduction of GST essentially acquires extensive process of consultation between the Centre and the States. It has been decided that the Empowered Committee of State Finance Ministers (EC) shall work with the Central Government of finance the roadmap for introduction of GST by 01.04.2010. The EC

has constituted, in May 2007, a Joint Working Group (JWG) consisting of officers of Central and State Governments to examine various models and options for GST and to give their assessment of the same of the EC within 4 months.

## VI. OPIUM CULTIVATION

India is the sole licit producer and exporter of opium gum in the world market. Other countries which grow opium follow the Concentrate of Poppy Straw (CPS) method. Cultivation of opium poppy through licences issued by the Central Bureau of Narcotics (CBN), and Export of opium are under the exclusive control of the Central Government. The Central Bureau of Narcotics, headed by the Narcotics Commissioner, is the designated agency to supervise the licit production of opium in the notified tracts of the three States namely Madhya Pradesh, Rajasthan and Uttar Pradesh. During the Crop year 2006-07, Commencing from 1st October, 206 and ending on 30th September, 2007, an area of 5913 hectares was harvested for opium poppy cultivation by 60232 cultivators. 269 metric tones of opium at 90 degree consistence (346 metric tones of opium at 70 degree consistence) was procured in April, 2007.

The Central Bureau of Narcotics has also initiated a Smart Card Project to streamline and digitize opium cultivation data through micro-processor chip based cards. The project is now at the advanced stage. The reports have started generating on trial basis through the System at the Divisional level.

During the Financial Year 2006-07 (upto 31st March, 2007), 342.631 MT opium (from the crop year 2005-06) was received at 90 degree consistence, 340 MT opium dried and 495 (Physical weight) MT opium exported.

The production/sale, etc., in respect of Alkaloids manufactured during 2005-06 in the Government Opium and Alkaloid Works, Ghazipur and Neemuch is tabulated as under:

Name of the Alkaloid	Opening Stock (Qty. in Kg.)	Production in (Qty. in Kg.)	Sales (Qty. in Kg.)	Sales Amount (Rs./lakh)
1. Codeine Phosphat - Indigenous	2525	10498	12628	4167.14
2. Codeine Phosphate - Import	550	5000	5550	1831.46
3. Codeine Sulphate	38	510	530	214.60
4. Thebaine	369	643	400	170.00
5. Morphine Salts	58	215	235	106.42
6. Dionine I.P.	19	545	564	236.66
7 Noscapiene	412	3217	2842	972.88
8. S.R. Papaverine	974	1321	881	4.00
9. Value Added Product	13	213	215	81.27
10. IMO Powder	4342	3600	5820	223.46
11. IMO Cake	397	1551	1787	64.51

## DIRECTORATE OF ENFORCEMENT

The Directorate of Enforcement is mainly concerned with the enforcement of the Foreign Exchange Management Act (FEMA), 1999. The Directorate is also responsible for adjudication of cases and follow-up of complaints registered under the erstwhile Foreign Exchange Regulation Act (FERA), 1973. This Directorate has also been

entrusted with the implementation of Prevention of Money Laundering Act (PMLA), 2002 which has come into force with effect 01 July 2005.

The Directorate collects intelligence from different sources, and investigates and adjudicates the cases under FEMA. During the year 2006-2007, the Directorate conducted 76 searches in which it seized Rs. 868.89 lakh in Indian currency and foreign currencies equivalent to Rs. 11.16 lakh. The Directorate recovered penalties of Rs. 129.20 lakhs under FEMA and Rs. 715.36 lakh under FERA respectively during 2006-07. Besides, the Directorate confiscated Rs. 24.54 lakh of Indian currency as well as foreign currency equivalent to Rs. 06.39 lakh under FERA and Rs. 85.45 lakh of Indian currency as well as foreign currency equivalent to Rs. 06.39 lakh under FERA and Rs. 85.45 lakh of Indian currency as well as foreign currencies equivalent to Rs. 09.25 lakh under FEMA during the year. The Directorate adjudicated 140 FERA cases and 393 FEMA cases during the year.

Besides, investigations have been initiated in 34 cases under the provisions of Prevention of Money Laundering Act (PMLA), 2002 for money laundering offences relating to waging war against the country, drug offences under NDPS Act, IPC Offences like forgery of valuation security/counterfeit currency etc. offences under Arms Act/Wild Life (Protection) Act/Immoral Traffic (Prevention) Act. In 29 matters, regular cases have been registered. Preliminary enquiries have been initiated in remaining 5 matters.

**Combating tax evasion :** The Income Tax Department is taking necessary legislative and administrative steps from time to time to curb/control black money and is also striving to check tax evasion and accumulation of unaccounted wealth. In pursuance of this objective, systematic search and seizure operations, verification of information by Central Information Branches in a planned manner and scrutiny of selected cases, are undertaken. Persons found to be indulging in tax evasion are dealt with severely by imposing penalties and by launching prosecution proceedings against them. Results achieved on searches and statistics for prosecution launched since F.Y.2002-2003 are as under:

### RESULT OF SEARCHES

(Rs in crore)

Year	No. of Warrants	Value of assets seized
2002-2003	4902	515.87
2003-2004	2492	231.37
2004-2005	2377	202.28
2005-2006	3364	351.69
2006-2007*	3534	364.64

### STATISTICS FOR PROSECUTION

Year	No. of Prosecution proceedings launched	No. of proceedings decided	No. of proceedings where conviction obtained	No. of proceedings compounded	No. of proceedings acquitted
2002-2003	102	433	18	11	404
2003-2004	37	115	12	55	48

2004-2005	103	350	1	262	87
2005-2006	326	125	1	85	39
2006-2007*	71	69	1	40	28

\* Provisional.

### ANTI-SMUGGLING DRIVE

Smuggling has been as old as international trade due to tariff and non-tariff barriers. Till about a decade ago high tariff and non-tariff barriers on most commodities encouraged smuggling into India of various items favoured by consumers in the country. With the process of economic liberalisation gathering momentum, major changes have been noticed in the inventory of commodities prone to smuggling, sectors used and modus operandi adopted by the economic offenders.

As a result of various measures taken by the Government including allowing legal import of gold on payment of concessional rate of duty, smuggling of gold has come down. Silver also seems to have lost its sheen. Smuggling in of narcotics drugs, yarn/fabrics, ball bearings, computer parts, electronic goods like mobile-phones, digital cameras, PDAs, MP3 players and variety of consumer items was, however, noticed during the year under report. Smuggling of foreign currency out of the country also continued mainly through baggage mode.

Details of goods seized and customs duty evasion cases detected by the field formations of the Customs Department including Directorate of Revenue Intelligence during the last 4 years are as follows:

(Value Rs in Crore)

Year	Seizure Value	Customs Duty Evasion Cases
2003-2004	611.56	1093.05
2004-2005	859.30	1080.40
2005-2006	288.29	468.65
2006-2007	377.88	748.05

Details of persons arrested, prosecuted, convicted under the Customs Act and detained under COFEPOSA Act and PITNDPS Act during the last four years are as follows :

Year	Action taken against persons under the Customs Act, 1962			Action taken against persons under COFFPOSA Act	Action taken against persons under PITNDPS Act
	Arrested	Prosecuted	Convicted	Persons detained	Persons detained
2003-04	433	125	66	38	34
2004-05	334	112	44	11	07
2005-06	113	031	04	57	03
2006-07	201	32	04	51	03

Persons found to be indulging in tax evasion are dealt with severely by imposing penalties and by launching prosecution proceedings against them. Results achieved on searches and statistics for prosecution launched since F.Y. 2001-2002 are as under:

## RESULTS OF SEARCHES

(Value Rs in Crore)

Year	No. of Warrants	Value of assets seized
2001-02	4358	344.33
2002-03	4902	515.87
2003-04	2492	231.37
2004-05	2377	202.28
2005-06	704	199.39
2006-07	1054	153.76

## STATISTICS FOR PROSECUTION

Year	No. of Prosecution proceedings/ launched	No. of proceedings	No. of proceedings where conviction obtained	No. of proceedings Comounded	No. of proceedings acquitted
2001-02	38	212	5	8	199
2002-03	102	433	18	11	404
2003-04	37	115	12	55	48
2004-05	103	350	1	262	87
2005-06	53	34	22	03	02
2006-07	45	127	13	01	08

**Government Opium and Alkaloid Works :** The Government Opium and Alkaloid Factories (GOAF), under the administrative control of the Ministry of Finance, Department of Revenue, are engaged in the processing of raw opium for export purposes and manufacture of opiate alkaloids. The organisation is headed by the Chief Controller of Factories (CCF).

There are two units of the Government Opium and Alkaloid Factories viz. Government Opium and Alkaloid Works (GOAW), Ghazipur (Uttar Pradesh) and GOAW, Neemuch (Madhya Pradesh). Each of these units has an Opium Factory as well as an Alkaloid Plant. The Opium Factories are mainly concerned with the receipt of opium from field, its storage and custody, drying and packing for export. The Alkaloid Plants are engaged in processing of raw opium into alkaloids of pharmaceutical grades to cater the domestic demand of the pharmaceutical industry. The manufacture and sale of opium and its alkaloids in India is presently under the sole control of the Central Government through the GOAF.

**FORFEITURE OF ILLEGALLY ACQUIRED PROPERTY**

The Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act, 1976 [SAFEM(FOP)A], provides for forfeiture of illegally acquired property of the persons convicted under the Sea Customs Act, 1878, the Customs Act, 1962 and the Foreign Exchange Regulation Act, 1973 and the persons detained under the Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974. The Narcotics Drugs and Psychotropic Substances Act, 1985 [NDPS Act] provides for tracing, freezing, seizure and forfeiture of illegally acquired property of persons convicted under this Act or any corresponding law of any foreign country and those

who are detained under the Prevention of Illicit Traffic in Narcotic Drugs and Psychotropic Substances Act, 1988 and Jammu & Kashmir Prevention of Illicit Traffic in Narcotic Drugs and Psychotropic Substances Act, 1988.

SAFEM(FOP)A and NDPS Acts provide for appointment of Competent Authorities for carrying out forfeiture of illegally acquired properties. At present, the Offices of Competent Authorities are located at Kolkata, Chennai, Delhi, Mumbai. During the year 2007-2008 (upto March, 2008), the Competent Authorities have forfeited property worth Rs 670.38 crore in 37 cases.

### MINISTRY OF CORPORATE AFFAIRS

India's corporate sector is one of the major driving forces of its economic growth. From major multinational corporations to small and medium enterprises and ranging across a wide diversity of sectors, including manufacturing, construction, telecom and services, corporate sector has played a significant role in the economic development of the country. This growth and development of corporate sector was enabled by the liberal reforms introduced in the country from time to time.

#### GROWTH OF CORPORATE SECTOR

Year ended March	No. of companies	Paid up capital (Rs. Crores)	% contribution to GDP
1982	72402	18935.5	11.1
1987	140670	43967.8	14.0
1992	250361	84642.3	12.9
1997	450950	190518.6	13.8
2002	589246	405753.2	17.8
2003	612155	457058.7	18.7
2004	641512	498790.8	18.1
2005	679649	654021.6	21.0
2006	732169	619152.0	17.3
2007	743678	649490.0	15.7

To meet the expectations of the Corporate Sector and its stakeholders in the changing national and global business environment, Ministry of Corporate Affairs has extended its efforts through a number of initiatives to bring about 'Good Governance'. These initiatives aim at improvement in the legislature framework and administrative set up to enable easy incorporation and exit of the companies, convenient compliance of regulations with transparency and accountability in corporate governance.

The Ministry is primarily concerned with the administration of the Companies Act, 1956 and other related statutes, and has taken up a series of initiatives to meet the needs of the Indian corporate sector. These initiatives include the implementation and stabilizing of an ambitious e-governance Project known as MCA21 as one of the Mission Mode Projects of the Govt. of India under the National E-governance Plan, comprehensive revision of the Companies Act, 1956 through a wide consultative

process, introduction of a new legal framework on the Limited Liability Partnerships, amendments to the Acts governing the three professional Institutes of Chartered Accountants, Cost and Works Accountants and the Company Secretaries, Amendments to the Competition Act, 2002, Developments and notification of Accounting Standards, creation of physical infrastructure in order to meet the requirements of offices and provide for an efficient work environment and proposed establishment of the Indian Institute of Corporate Affairs.

The Corporate Sector, apart from creating wealth for the nation, plays a significant role in the national economy by providing investment and employment opportunities to millions of our people in India. There were about 30 thousand registered companies at work in 1957, i.e. initial year of 2nd five year plan and this number has increased to about 788 thousand registered companies at work at the end of March, 2008.

The corporate sector consists mainly of non-government companies which form 99% of the total sector whereas government owned companies are a negligible 1%. The companies are of three types - companies limited by guarantee, companies limited by shares and unlimited companies; with companies limited by shares forming the major chunk of the corporate sector (98%).

The corporate sector in India is dominated by small and medium sized companies as they constitute 92% of the sector. These companies have authorized capital of less than Rs. one crore. The remaining 8% companies have authorized capital of more than Rs. one crore. Only 1% companies have authorized capital of more than Rs. 25 crores.

The industrial sectors having major concentration of Indian companies are the manufacturing sector, finance, insurance, real estate & business activities, wholesale & retail consists of 31% of total companies followed by finance, insurance, real estate & business activities which together form 30% of the Indian Corporate sector. The industrial sector with the activities of wholesale & retail trade, hotel & restaurants forms 16% whereas construction forms 8% of the corporate sector.

#### **State-wise distribution of Indian companies**

The three largest states constituting 54% of the corporate sector are Maharashtra, Delhi and West Bengal. The top fifteen states having largest concentration of Indian companies are Maharashtra, Delhi and West Bengal, Tamil Nadu, Andhra Pradesh, Gujrat, Karnataka, Uttar Pradesh, Rajasthan, Kerala, Punjab, Madhya Pradesh, Bihar, Haryana and Chandigarh in that order. These states constitute 96% of the sector.

#### **Statutory Reforms**

The Ministry has been working on wide ranging reforms in the statutory framework relating to the corporate sector. Some of the major initiatives taken in this direction are as under :

**i. Comprehensive revision of the Companies Act, 1956 :** In today's globalized environment, India's corporate sector is expanding its operations rapidly beyond India's border. To achieve levels of management and governance that inspire investor confidence internationally, legal and regulatory framework for corporate sector is being developed to provide a business friendly structure for entrepreneurs without compromising on the need for protection of investors and other stakeholders. The exercise was started with the preparation of the Concept Paper and its dissemination on the website of the Ministry to seek public comment, followed by constitution of an Expert Group headed by Dr J J Irani and consisting of representatives from corporate,

industry bodies and professionals. Based on the inputs received from various segments, a draft Companies Bill prepared in consultation with the Ministry of Law & Justice will be introduced in the Parliament after requisite approvals. The new compact law would focus on shareholder democracy, a disclosure based regime, rational penal provisions with built-in required deterrence and sufficient protection of the interests of investors.

**ii. Limited Liability Partnerships Bill :** Keeping in view the vast potential for the growth of knowledge and services sector in the country, the Ministry has prepared a new legislative framework enabling the creation of Limited Liability Partnerships as a new corporate form. The Limited Liability Partnership Bill, 2006 has been introduced in the Parliament in December, 2006. The Government has approved introduction of the revised LLP Bill, 2008 in the Parliament for considering and passing.

**iii. Accounting Standards :** The National Advisory Committee on Accounting Standards (NACAS) constituted under section-210A of the Companies Act, 1956 has recommended Accounting Standards 1-29 (except AS 8 which has been merged with AS 26) for prescribing under the Act. These Accounting Standards were examined in consultation with Ministry of Law and have been prescribed under the Companies Act, 1956 through notification number GSR 739(E), dated 7th December, 2006. The new Accounting Standards incorporate the internationally accepted practices and the implementation thereof would bring the Indian Accounting systems largely conforming to the international accounting standards.

**iv. Competition Act, 2002:** India has responded to the current trend of globalization by opening its economy, removing controls and moving to a more liberal regime. As a natural corollary, it was felt that the Indian market should be geared to face competition, from within the country and outside. While competition in the market has significant benefits by way of increased economic efficiency and consumer welfare, however, there is need to guard against market failures. The common market failures arise out of anti-competitive agreements like cartel formation; abuse of dominant position like predatory pricing, vertical restraints like exclusive supply or distribution arrangements and mergers to exercise monopoly power. With a view to prohibit and regulate such activities, the Competition Act, 2002 was enacted and under the provisions of this Act the Competition Commission of India was established.

Certain provisions of the Competition Act, 2002 were challenged in the Supreme Court and keeping in view the judgment of the Supreme court proposals for amendments to the Competition Act were placed before the Indian Parliament which were approved during Monsoon Session, 2007. The amended provision of the Act provides for a dedicated institutional structure for dealing with Competition related issues. The structure includes the Competition Commission of India (CCI) and the Competition Appellate Tribunal (CAT) to deal with the appeals against the orders of the CCI. Now, the central Government is taking necessary measures for fully operationalising CCI and CAT, by notification of relevant rules under the Competition Act, 2002 as amended selection of Chairperson and Members of CCI & CAT respectively, recruitment of necessary staff to man the said organizations and facilitating their training and capacity buildings.

## **MAJOR PROGRAMMES OF THE MINISTRY**

### **• Investor Education and Protection Fund**

Investor Education and protection Fund (IEPF) has been established under Section

205C of the Companies Act 1956 by way of Companies (Amendment) Act, 1999 for promotion of investor's awareness and protection of the interests of investors. Under IEPF, various programmes on investors education and awareness have been funded and organized through voluntary Associations or organizations registered under IEPF. About 69 Associations/organizations have been registered under IEPF, till date. The Ministry has undertaken various initiatives for increasing the investor's awareness and education in the year 2007-08 which are as follows :

i. Series of advertisements on investor education were issued in national as well as regional language newspapers. Through these advertisements, efforts have been made to educate investors for investing in IPOs, market instruments, Mutual Funds etc.

ii. The Media campaigns had been launched in various newspapers, wherein besides the above said educative messages, NGOs/VOs involved in investor education and protection activities, especially those with a rural outreach were invited to apply for financial assistance under IEPF schemes. Further, organizations , which were keen to carry out the reseaech on the subjects of investor education/protection, related issues were also invited to submit their proposals to the IEPF.

iii. Investor Education message was aired on All India Radio through Prasar Bharati to create awareness on the issues concerning investors and about the IEPF.

iv. An "Investor Helpline" [www.investorhelpline.in](http://www.investorhelpline.in) project which had been launched under IEPF through Midas Touch Investors Association to provide a mechanism for redressal of grievances and to create investor awareness has been rendering service to the investors.

v. Further, another website, namely [www.watchoutinvestors.com](http://www.watchoutinvestors.com) which is a national registry of economic defaulters and covers information on convictions by various bodies, has also been rendering effective service to not only investors and prospective investors but also to professionals such as advocates, chartered accountants and company secretaries.

vi. Another website, namely [www.iepf.gov.in](http://www.iepf.gov.in) was launched by the Hon'ble Minister for Corporate Affairs during the year to serve as a knowledge sharing platform in the area of financial literacy as a measure of investor awareness and education.

vii. During the year, the month of September 2007 was observed as 'Investor Awareness Month' for the first time by the Ministry of Corporate Affairs. This event was organized in association with the Institute of Chartered Accountants of India and the Institute of Company Secretaries of India and various investor awareness programmes were organized at 61 location across the country.

viii. Under the Capacity Building Programme, "Training of Trainers" programmes through Indian Institute of Capital Market (IICM), Mumbai had been conducted especially for the new organizations active at Taluka level.

ix. Besides, a research project on the impact of delisting of shares on investors by the Society for Capital Market Research and Development, Delhi had been undertaken.

#### • National Foundation for Corporate Governance

The Ministry of Corporate Affairs has set up National Foundation for Corporate Governance (NFCG) as a not-for profit Trust to provide a platform to deliberate issues relating to good corporate governance and to sensitize corporate leaders on the importance of good corporate governance practices, to facilitate exchange of

experiences and ideas between corporate leaders, policy makers, regulators, law enforcing agencies and non-government organizations.

The NFCG has a three-tier structure for its management, viz, the Governing Council under the Chairmanship of Minister of Corporate Affairs, the Board of Trustees and the Executive Directorate.

A website of NFCG had been launched to serve as a vehicle for dissemination of policies for better corporate governance. NFCG had framed an Action Plan which includes development of good corporate governance principles on identified themes i.e. (i) corporate governance norms for Institutional Investors, (ii) corporate governance norms for independent directors, and (iii) corporate governance norms for Audit. Three core groups were constituted in this behalf.

Besides the NFCG has also been sponsoring orientation programme for Directors through the various institutes of Excellence and has been organizing seminars and conferences to propagate the need for following good corporate governance practices.

The following initiatives were undertaken the aegis the NFCG towards promotion of Corporate Governance during the financial year 2007-08.

- a) Faculty development Programme on Corporate Governance in partnership with the Indian Institute of Management, Bangalore was conducted in May, 2007;
- b) Symposium on Corporate Governance through Audit Committee was organized in June 2007 in partnership with ICAI;
- c) National Conclaves on Corporate Governance in India was organized in July 2007 and October 2007;
- d) Corporate Director Programme on Audit Committee was conducted in July/ August, 2007 in partnership with the Indian Institute of management, Bangalore;
- e) Corporate Governance orientation Programme for Company Directors was organized in partnership with the Indian Institute of Management, Bangalore in November 2007;
- f) National Seminar on Corporate Governance was organized in partnership with Loyola Institute of Business Administration at Chennai in January 2008;
- g) 1st International Summit on Corporate Staff Responsibility which was organized by ASSOCHAM was sponsored through NFCG in January 2008;
- h) Seminars on Corporate Governance to State Level Public Enterprises and for Directors of SMEs were organized by Administrative Staff College of India in partnership with NFCG in March 2008.
- i) Besides, research studies on various topics relating to Corporate Governance were also conducted under the aegis of NFCG.

Future Plans of NFCG include taking up the issues of adopting a country strategy on Corporate Governance, encourage Corporate Governance cooperation in South Asia particularly relating to SAARC countries and dissemination of corporate governance practices for the small and medium corporate.

• **Serious Frauds Investigation Office (SFIO)s**

Serious Fraud Investigation Office (SFIO) has been set up by the Govt. of India in the Ministry of Corporate Affairs by way of resolution dated 2.7.2003 as per the Cabinet decision dated 09.01.2003. This office has been set up to investigate corporate frauds of serious and complex nature. It carries out investigation under the provisions of the

Companies Act and files prosecutions for the violations of the provisions of the Companies Act as well as Indian Penal Code (IPC). Investigation is carried out by a multidisciplinary team which includes experts from the field of accountancy, forensic auditing, taxation, customs and central excise, information technology, capital market, financial transactions (including banking) and enforcement agencies like CBI, IB and Directorate of Enforcement.

SFIO take up investigations of frauds characterized by (a) complexity and having inter-departmental and multi disciplinary ramifications, (b) substantial involvement of public interest to be judged by size, either in terms of monetary misappropriation or in terms of persons affected, and (c) the possibility of investigation leading to or contributing towards a clear improvement in systems, laws or procedures.

This office is in existence for last four and a half years and so far this organization has received 65 investigation cases and carried out investigation and submitted investigation report to the Ministry in 31 corporate fraud cases. Prosecutions have been sanctioned against the concerned officials/Directors of these corporates on the basis of these reports. On the basis of these sanctions, so far 739 prosecutions under the various provisions of Companies Act as well as IPC have been filed in the competent court.

- **Indian Institute of Corporate Affairs (IICA)**

The Ministry of Corporate Affairs is in the process of establishing the Indian Institute of Corporate Affairs (IICA) which will provide policy think tank, policy research, capacity building and knowledge support to the Ministry as well as other sections of the government. It will also function as a service delivery arm of the Ministry for specific initiatives related to investor education, corporate governance and electronic Registry functions. The institute with national and international institutions of excellence in corporate affairs. The proposal has already been approved by the Cabinet and the Ministry has started working on establishing a campus at IMT Manesar, Gurgaon. While the regular campus is coming up, the interim operations of the institute are going to be started shortly from a temporary premises.

- **MCA21 e-Governance Project**

The Ministry of Corporate Affairs (MCA) has implemented an e-Governance initiative known as 'MCA21 e-Governance Project'. It is built on the Government's vision to introduce a service-oriented approach in the design and delivery of Government Services. The Project offers availability of all registry related services including filing of documents, registration of companies and public access to corporate information through a secure portal. The portal services can be accessed/availed from anywhere, at any time that best suits the corporate entities, professionals and the public at large. Thus MCA21 has led to efficient delivery of services and supervision of corporate processes through the use of modern information technology and computers in an easy and transparent manner.

The objective of the e-governance is to improve the speed and certainty in delivery of MCA services in a transparent manner. This improvement is ensured primarily through the mechanism of secure electronic filing (e-filing) and easy online payment for all the services provided by the Registrar of Companies. It is, therefore, a significant step towards an end-to-end paperless delivery of the Government Services with widespread use of Digital Signature to carry out e-filing in a secure manner in conformity with the Information Technology Act, 2000. Starting with the launch of

first pilot on February 18, 2006 from Coimbatore and the major launch of the second pilot from delhi by the Hon'ble Prime Minister on March 18, 2006, the programme was rolled out at all the ROC locations in a phased manner by September 4, 2006. Electronic filing, using Digital Signatures, was made compulsory from September 16, 2006 with the amendment in the Companies Act, 1956. The facility for online payment through Credit Card and Internet Banking has also been provided on the portal through a secure payment gateway, to ensure prompt recognition of payment and delivery of services.

The project has a sound foundation in its conceptualization, solution architecture, a sound BPR and deliverables measured through a strict regimen of services level benchmarks. A comprehensive outcome based project with focus on service delivery, the project envisages benefits for various categories of stakeholders as under :

- **Business:** enabled to register a company and file statutory documents quickly and easily, and in a manner that is convenient
- **Public:** to get easy access to relevant records and get their grievances redressed effectively
- **Professionals :** to be able to offer efficient services to their client companies
- **Financial Institutions :** to find registration and verification of charges easy
- **MCA :** to ensure proactive & effective compliance of relevant laws and corporate governance
- **Employees :** enabled to deliver best of breed services

The solution architecture provides for a Data Centre, which has been set-up at Delhi, A Disaster Recovery Centre at Chennai and a network of facilitation centres at 52 locations throughout the country. In the event of any technology breakdown or disruption of services from the Data Centre, the services can be restored within a time-frame of 12 hours by taking recourse to the Disaster Recovery Centre. The project has been designed with provision for interoperability and interface with other Government Departments/Ministries.

The implementation of the programme has been remarkably smooth with the transition having been facilitated through a well structured communication plan with the external stakeholders and training & hand-holding of the MCA employees. Seminars and conferences attended by professionals and company representatives were organised at 24 places. Full day training workshops were held by the operator at 55 locations attended by more than 9000 professionals before mandating e-filing from September 16, 2006. Keeping in view that the stakeholders including corporate entities and the public may face certain difficulties in the beginning in switching over from the manual filing system to an electronic filing system, these facilitation centres provide complete range of services for e-filing of documents to the stakeholders who do not have the necessary computing/IT infrastructure or capability to use the same for e-filing from their own locations. The Project provides for continuation of this support for a period of three years from the Project Implementation Completion date without any charge to the stakeholders.

Besides a network of state-of-the-art Facilitation Centres at 52 location where facilities for e-filing have been made available free of any charge throughout the country, a scheme for Certified Filing Centres (CFCs) managed through the practising professionals was introduced following the concept of user charges. About 900 such

CFCs have been authorised throughout the country. It is result of these efforts that about 92% of the documents are being filed today from the virtual offices without any support or help.

A new concept of Director Identification Number (DIN) has been introduced whereby all the existing Directors as well as those intending to be Directors in future are required to obtain DIN for which a process has already been put in place. A reference to DIN allotted to a Director is a mandatory field in respect of certain filings. Since the process establishes the identity of Directors of the companies and it is envisaged to develop a link between the Company Identification Number (CIN) and the DIN, it would enable the Ministry to do a meaningful processing in relation to enforcing compliance of statutory provisions of the Companies Act, more specifically in relation to the Directors on companies.

**National Award for MCA21 Programme :** The MCA 21 programme of the Ministry has been conferred the "National Award for e-Governance - 2007-08" by the Government of India. The award is in the Gold category for excellence in Government Process Re-engineering.

**Skoch Challenger Award 2008 :** The MCA21 project has been awarded "Skoch Challenger Award 2008" as a project of "National Significance" on March 19, 2008 by Skoch Consultancy Services Pvt. Ltd.

**The operational statistics, as on July 31, 2008 as follows :**

Sr No.	Description	Number
<b>Filing Status as on July, 2008</b>		
1	Average portal hits per day	2.98 Millions
2	Peak Portal hits (28 Nov, 2007)	14.18 Millions
3	Maximum number of documents filed on a day (29 Nov. 2007)	41,832
4	Total filings done till date	49.00 lakhs
5	Companies Registered online	1,43537
6	Total DIN issued till date	8.64 lakh
7	Company records viewed online	5.78 lakh
8	Number of Balance Sheets filed	3.80 lakh
9	Number of Annual Returns filed	3.80 lakh
10	Number of Din-3 filed	4.88 lakh
11	E-filing through VFO	92%
12	Online Payment transactions	58.69%

**• Indo-UK Task Force On Corporate Affairs**

The 2nd meeting of Indo-UK Task Force on Corporate Affairs was held on 5th to 8th February, 2008. Five sub-groups were formed for the purpose of de-kiberations and cooperation in teh following areas :-

- Regulatory and statutory issues including institutional Cooperation and Capacity Building;
- Corporate Governance;

- Corporate Social Responsibility;
- Standards in Financial and Related Professions;
- Insolvency and related issues;

Subsequent to the meeting, the following initiatives have been taken :-

i. One group of five officers will be visiting UK from 15-20 September for capacity building and exposure to the best practices in UK in the area of Insolvency Services. This is expected to widen the horizons of officers in the Ministry of Corporate Affairs towards an efficient and effective system of service delivery and protection of rights of monetary stakeholders.

ii) Mr. Toby Watkinson, Senior Policy Advisors, an expert on insolvency in U.K. visited India and held discussions as well as shared experiences with selected officers/ audiences from Ministry of Corporate Affairs, Regional Directors, Official Liquidators, Institute of Chartered Accountants of India, Institute of Company Secretaries of India and Institute of Cost & Works Accountants of India towards initiation of a process aimed at change of mind-sets for better and transparent corporate governance and liquidation process.

iii) One group of five officers is visiting Department for Business Enterprise and Regulatory Reforms (BERR) in U.K. for capacity building and exposure to the best practices in U.K. in the area of corporate fraud. This is expected to widen the horizons of officers in the Ministry of Corporate Affairs towards efficient system of inspection, technical scrutiny and investigation besides creation of an early system to act as a deterrent for others.

#### **EVENTS OF THE YEAR**

**New Look MCA Offices :** Initiatives have been taken to provide modern and productive work environment to the field offices of the Ministry, wherein new office complexes are to be constructed at Jaipur, Chandigarh and Cuttack, built up spaces are acquired from UTIISL at Chennai and Bangalore and existing offices are to be refurbished.

**Corporate Bhawan at Jaipur :** The Hon'ble Minister for Corporate Affairs laid the foundation stone of the first Composite office of the Ministry known as "Corporate Bhawan" at Jaipur on 10th May, 2007. The new office complex after completion would house the offices of the Registrar of Companies (RoC) Jaipur, the office of Liquidator, Jaipur and also accommodate the proposed bench of NCLT at Jaipur.

#### **CONFERENCES/MEETINGS HELD DURING THE YEAR**

**National Conclave on Corporate Governance :** A national conclave was organised by the National Foundation for Corporate Governance on the theme entitled "Corporate Governance in India : Transforming Business Environment" on 30th July, 2007. It was attended by various industrialists, stakeholders, business leaders and professionals. The prime focus of this initiative was to highlight the "Partnership Approach" with stakeholders which has been the hallmark of various initiatives undertaken by the Government during last couple of years. Discussions were held on various legislative and administrative aspects concerning corporate sector.

**Annual Workshop of RDs and RoCs :** A two day residential workshop was conducted for RDs and RoCs on August 10 and 11, 2007 at National Institute of Financial Management, Faridabad. The main focus of the workshop was to evolve Annual

Action Plan and implementation strategies to reform and restructure the functioning of these offices. Awards were given to the RoCs for transforming the physical environment of their offices to provide a 'New Look'. The first award was given to RoC Cuttack, second prize to RoC Gwalior and the third prize to RoC Kerala.

**International Summit on Corporate Social Responsibility :** The First international Summit on Corporate social Responsibility (CSR) was held on January 29-30, 2008 at New Delhi. It was cosponsored by the Ministry of corporate Affairs under the aegis of National Foundation for corporate Governance (NFCG) and organized by ASSOCHAM.

**Asia Network on corporate Governance :** A meeting of Asia Network on Corporate Governance of state-issued enterprises by OECD was held on 25th and 26th June, 2008 at 'Oberoi Hotel'. New Delhi. It was sponsored by National Foundation for Corporate Governance a body established by MCA in partnership with CII, ICAI and ICSI.

#### INTERNATIONAL COOPERATION

**Indo-UK cooperation :** A delegation of financial and legal experts from UK lead by Mr. Alderman John Stuttard MA, the Rt. Hon Lord Mayor of the City of London visited the Ministry of Corporate Affairs on 21st May, 2007. the Lord Mayor is also the Ambassador of the Indo-UK industry with its headquarter in the city of London and includes the regional financial centres such as Edinburgh, Glasgow, Leeds, manchester and Bristol, as part of his role includes ambassadorial role for financial services as well. Mr Stuttard has wide international experience including in China. in 1981 he was seconded for two years to the UK Cabinet Office, to advise on the nationalized industries and their privatization. He also receives visiting heads of states and governments on behalf of the British government, Lord Mayor's business initiatives will focus on developing London as a city of Financial Learning During the meeting with Hon'ble Minister of Corporate Affairs. Govt of India. the delegation discussed areas of mutual concern relating to the regulatory framework of preparation, presentation and audit of financial information of Fompanies. The discussions also covered institutional mechanisms for rgulation of accountancy professionals and impact of financial reporting on corporate governance. Government of the two countries have already agreed to set up an Indo-UK Joint Working Group for mutual cooperation on all issues relating to corporate matters. including corporate laws and corporate governance. It was agreed to explore the possibilities of collaboration between selected U.K. institutes and the proposed 'Indian Institute of Corporate Affairs' being set up by the Ministry.

**Indo-UK Task Force :** The first meeting of Indo-UK Task Force on corporate affairs was held on 1st August 2007 with a view to strengthn the Coioperation bwtween the two countries on corporate matters. The task force deliberated and agreed on the following areas of cooperation. Regulatory and statutory issues including company Law. Partnership Law, Competition. Law Regulation of Accountancy Profession and enhancing competitiveness; Corporate Governance, Corporate Social Responsibility; Law Standards in Financial Profession, Insolvency, International co-operation, capacity building and best practices, and Investor Protection and Electronic Registry Services.

**Ministry of Trade and Investment, UK meets Minister of Corporate Affairs :** A meeting of Lord Digby Jones of Birmingham the Minister of State of trade and Investment, UK was held with the Minister Corporate Affairs on 15th January, 2008

. In the meeting various reforms introduced in the corporate law like LLP Bill, accounting standards, Amendment of competition Act and revision of Companies Act, 1956 were discussed.

**Lord Mayor of the city of London meets the Minister of Corporate Affairs:** A delegation led by Mr. Alderman David Lewis Ma, the Rt. Hon Lord mayor of the city of London met the Hon'ble Minister of Corporate Affairs on 22nd April, 2008 and discussed the matter relating to corporate Government. Current position of LLP Bill and Companies Act, Professional service, regulation and corporate governance structure and functioning of the Indo-UK Task Force on corporate Affairs.

**Visit of Indian delegation to UK :** An Indian delegation led by Secretary MCA visited UK to attend the second meeting of Indo-UK Task force on Corporate Affairs on 7th February 2008. The delegation also visited INSOL, Competition Commission, National School of Government, UK, Institute of Directors, UK, Take Over Panel, UK and Financial Reporting Council and Chartered Institute of Management Accountants. UK.

**Visit of delegates from European Commission :** A delegation led by Mr. Pierre Desaux, Director, Free Movement of capital, Company law and Corporate Governance, European Commission met Secretary, Ministry of Corporate Affairs on 7th March, 2008. In the meeting, issues related to Accounting and auditing, convergence of accounting standards with IFRS, modernization of the accounting profession and other related issues were discussed.

Mr. Jorgen Holmquist, Director-General responsible for International Market and Services, European Commission met Secretary, Ministry of corporate Affairs on 10th April 2008. Issues related to possible cooperation on regulatory mechanism, accounting, auditing and other areas of mutual interest were discussed.