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GENERAL STUDIES

CURRENT ECONOMY

(PART - 2)

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GS – ECONOMY

CURRENT ECONOMY

PART - 2

FDI IN RETAIL

FDI is Foreign Direct Investment. Direct Investment is of two types: Domestic Direct Investment (DDI) and Foreign Direct Investment. DDI is done in domestic currency (rupee in India) and FDI brings in foreign exchange.

The question arises why FDI. The need for FDI is justified only in two situations – (1) when DDI is inadequate or (2) when foreign exchange is required. On the DDI front, the position as obtained in our country is fairly sound. Banks are flush with funds; the domestic savings rate is one of the highest in the world; market capitalisation, constantly on the rise, makes available investible funds; and DFIs have huge unutilised funds waiting to be deployed in feasible projects. . Therefore, domestically speaking, there is no shortfall of funds for investment.

As for foreign exchange, it is either an asset or liability, depending upon its repatriability. If it is repatriable (i.e., to be returned or repaid in the form of foreign exchange itself), it is a liability. If not, it is an asset. This way, only three sources of foreign exchange – (1) exports of goods and services, (2) NRO accounts in banks and (3) Foreign Aid — qualify as assets. The rest are liabilities like FCNR & NRE deposits of NRIs; FDIs; FIIs and foreign exchange loans from foreign governments and agencies. For convenience, let's call one asset foreign exchange and the other liability foreign exchange. Some people choose to call them non-debt and debt inflows respectively.

FDI is a debt inflow or liability foreign exchange Why? Simple, because the profits or returns it generates will have to be repatriated in foreign exchange.

Foreign exchang is needed for long-term benefits to the economy, the demand for it can be classified into **consumption and construction**. Consumption demand is the demand for foreign exchange to import consumption items like gold, oil, tourism and FMCG — all those areas where funds are just blown. On the contrary, 'construction' stands for all those areas which promote exports, substitute imports, strengthen the infrastructure of the country and make it more competitive globally.

They say, had FDI not come in, our automobile, telecommunication, aviation, banking and many other industries would not have reached global standards. I would say that instead of allowing foreign capital to set up shop here, the country should have used foreign exchange to just import technology, if needed; and set up the same industries with domestic capital. No liability foreign exchange; no profits going out of the country; domestic consumers getting the same products; and the fruits of exports being reaped by domestic firms and not foreign — all the way a win-win situation for us.

There cannot be a more foolish act for any country than inviting foreigners to set up shop on its own territory. First, it is a clear signal of allowing them to reap profits here and take them back. Second, it is telling the world, loud and clear, that we, by ourselves, are incompetent and inefficient. If a foreign entity pushes for entry in the economy, it will still make sense. It wants to expand its market and reap profits. But what is the compulsion for a host country to insist that a foreign entity come and set up shop here ?

Historically, no economy has ever developed on foreign capital. In the industrial revolutions of various nations, the crucial factors that have been instrumental are (1) indigenous mobilisation of resources, (2) domestic technological development and application (3) strategic management and (4) support from the governments, mostly to ward off external pressures.

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GAAR in India

In India, the real discussions on GAAR came to light with the release of draft Direct Taxes Code Bill (popularly known as DTC 2009) on 12th August 2009. It contained the provisions for GAAR. Later on the revised Discussion Paper was released in June 2010, followed by tabling in the Parliament on 30th August, 2010, a formal Bill to enact the law known as the DirectTaxes Code 2010. The same was to be made applicable wef 1st April, 2012. However, owing to negative publicity and pressures from various groups, GAAR was postponed to at least 2013, and was likely to be introduced alongwith the Direct Tax Code (DTC) from 1st April 2013. Moreover, an Expert Committee has been set by Prime Minister (Manmohan Singh) in July 2012 to vet and rework the GAAR guidelines issued in June 2012. The latest reports (indicates) by SHOME PANEL ON General Anti Avoidance Rules is given below

- The Shome panel has suggested that GAAR should be made applicable only if the monetary threshold of tax benefit is Rs.3 crore and more (including tax only, and not interest etc)
- The implementation of GAAR may be deferred by three years on administrative grounds. In effect, therefore, GAAR would apply from Assessment Year 2017-18
- GAAR is an extremely advanced instrument of tax administration — one of deterrence, rather than for revenue generation — for which intensive training of tax officers
- The provisions of GAAR should not be invoked to "examine the genuineness of the residency of an entity set up in Mauritius," the government should retain the provisions of the CBDT circular issued in the Year 2000 on acceptance of Tax Residence Certificate (TRC) issued by Mauritius
- The government should abolish the tax on gains arising from transfer of listed securities, whether in the nature of capital gains or business income, to both residents as well as non-residents. In order to make the proposal tax neutral, the government may consider to increase the rate of Securities Transaction Tax (STT)
- While recommending that GAAR should apply "only in cases of abusive, contrived and artificial arrangements
- The Shome panel suggested that the I-T Act may be amended to provide that only arrangements which have the main purpose (and not one of the main purposes) of obtaining tax benefit should be covered under GAAR
- It recommended that the Approving Panel (AP) for purposes of invoking GAAR provisions should consist of five members, including Chairman, who should be a retired judge of the High Court.
- The report has recommended that the tax rules be applied only to future indirect asset ransfers. It has also suggested that no interest be charged if the government did decide to apply tax retrospectively.
- The report has called for an amendment to the Finance Act, 2012, to incorporate its recommendations.
- GAAR not to be applicable on FIIs, capital market transactions
- GAAR not to apply to payment of dividends, buybacks
- GAAR not to apply to setting up branch/subsidiary
- GAAR not to apply to funding through debt/equity
- GAAR not to be invoked in intra-group transactions

All investments (though not arrangements) made by a resident or non-resident and existing as on the date of commencement of the GAAR provisions should be grandfathered so that on exit (sale of such investments) on or after this date, GAAR provisions are not invoked for examination or denial of tax benefit.

Talking ATMs in India

In 2012, Public sector leader Union Bank of India unveiled India's first ever Truly Accessible and Talking ATM [18] in Vastrapur, Ahmedabad, Gujrat on 6 June 2012 for the visually and physically challenged people. Union bank of India has done pioneered work on Talking ATM in India. Union Bank's Talking ATM model and workflow has set a benchmark. Union Bank of India has also developed Talking ATM usage accessible manuals in DAISY (Digital Accessible Information System) and electronic Braille formats. Accessible instructions manuals can be easily downloaded from bank's website.

On October 4, 2012 State Bank of India, India's largest Public Sector Bank, launched its first and Real Talking ATM in New Delhi.

Cabotage Law and changing requirement

Cabotage is the transport of goods or passengers between two points in the same country by a vessel or an aircraft registered in another country. Originally a shipping term, cabotage now also covers aviation, railways, and road transport. **Cabotage is "trade or navigation in coastal waters, or, the exclusive right of a country to operate the air traffic within its territory.**

The age-old Cabotage Law, which prohibits foreign flag ships to transport domestic cargo using coastal waters, has come under the lens of the Competition Commission of India. Why to have a Cabotage Law when Indian shipping companies are unable to transport all the required goods, for many years the Cabotage Law has been there but Indian shipping companies have not taken advantage of it. Then open it (coastal shipping) up, the Cabotage Law is not only affecting the industry but also the end consumers, who need to pay more for moving cargo by rail or road,

The rail network is choked. Road is a cost to the nation and should be decongested. It is also three times costlier than river or sea transport. While river transport is hardly used in India, sea transport is a viable option to consider.

If cargo needs to come to Chennai from Jamnagar, why should it be moved by rail or road? It can come through the sea, which is cheaper and can be used to move more volume of cargo,

Cabotage laws are governed by Sections 407 and 408 of the Merchant Shipping Act, 1958, which states that no ship other than an Indian ship or a ship chartered by a citizen of India shall engage in the coastal trade of India except under a licence granted by the Director-General of Shipping.

Financial Action Task Force

The Financial Action Task Force (on Money Laundering) (FATF), is an intergovernmental organization founded in 1989 on the initiative of the G-7. The purpose of the FATF is to develop policies to combat money laundering and terrorism financing. The FATF Secretariat is housed at the headquarters of the OECD in Paris.

The Task Force was given the responsibility of examining money laundering techniques and trends, reviewing the action which had already been taken at a national or international level, and setting out the measures that still needed to be taken to combat money laundering. In April 1990, less than one year after its creation, the FATF issued a report containing a set of Forty Recommendations, which provide a comprehensive plan of action needed to fight against money laundering.

In 2001, the development of standards in the fight against terrorism financing was added to the mission of the FATF. In October 2001 the FATF issued the Eight Special Recommendations to deal with the issue of terrorism financing.

FATF issues new Mechanism to Strengthen Money Laundering and Terrorist Financing Compliance

The FATF is the global standard-setter in the fight against money laundering, and the financing of terrorism and proliferation of weapons of mass destruction. Over the past twenty years the

FATF has developed, used and refined rigorous compliance mechanisms to help ensure global compliance with its Standards. It assesses compliance through a stringent country evaluation and monitoring process. A new round of evaluations will begin in 2013.

The new Methodology adds a new dimension to the evaluation of countries compliance with FATF-standards. It remains as important as before that all countries implement the Recommendations of the FATF in their legal systems, however, the new Methodology lays the foundation for a systematic assessment of the effectiveness of national systems. The future assessments will determine how well countries achieve the objective of fighting Money Laundering and Financing of Terrorism.

The Methodology comprises two inter-linked components:

- The technical compliance assessment will address the specific requirements of each of the FATF Recommendations, principally as they relate to the relevant legal and institutional framework of the country, and the powers and procedures of competent authorities. These represent the fundamental building blocks of an Anti Money Laundering /Combating of Financing of terrorism.

  The level of compliance with each Recommendation will be indicated with one of the following ratings: compliant, largely compliant, partially compliant or non-compliant.
- The effectiveness assessment will assess the extent to which a country achieves a defined set of outcomes that are central to a robust AML/CFT system and will analyse the extent to which a country's legal and institutional framework is producing the expected results.

How effectively each of the Immediate Outcomes in the Methodology is achieved by a country will be set out in the evaluation report and will include one of the following ratings: high-level of effectiveness, substantial level of effectiveness, moderate level of effectiveness and low level of effectiveness.

Fuel Surcharge Adjustment

FSA is fuel surcharge adjustment the additional fuel cost that was not collected from consumers by service provider in the previous years, but due to sudden upward change of prices of fuel products. That leads to diminishing of profit or may be bring a situation that makes service unprofitable ,to over come this situation, service provider add fuel surcharge adjustment in their service cost. Recently APERC added FSA in their electricity bill and ministry of railways also brought this component to offset their loss.

Greenex

The BSE has launched the Green Index called Greenex. This is India's first carbon-efficient live index. The index has been developed by the BSE in collaboration with IIM Ahmedabad. It is the second thematic index launched by BSE. BSE Greenex will measure the performances of companies in terms of carbon emissions. The index will target socially-aware investors. There are many investors willing to pay a premium for green investments in companies to get better returns. Green companies, or companies that have the best environmental practices to reduce their carbon footprint, are now increasingly seen as more sustainable in the long run.

The index will meet the growing local and international demand to identify 'green investments' and companies with a strong social responsibility. The cost of carbon-based energy production is increasing. If companies become more efficient and reduce energy costs, there is a chance of higher profitability.

The index can be used to develop green financial products including mutual funds, exchange-traded funds and structured products. Further, the index is expected to enable investors to take more informed investment decisions on companies in the energy-intensive sectors. It will help screen companies doing well on the carbon side, as the concerns of climate change is growing among stakeholders.

Here are pointers on how this could benefit you:

- Greenex has 20 companies from the broader BSE 100 index that meet energy efficiency norms, allowing investors to derive benefit from the related cost savings. The company with the biggest weightage in this index is Tata Steel at 6.7 per cent. ICICI Bank, State Bank of India, HDFC, Sun Pharma and BHEL are the other major constituents of the Index. The exchange says that these companies are good in terms of carbon emissions, free-float market capitalization (non-promoter holding) and daily turnover.
- The index will allow investors to track companies that invest in energy efficient practices. Energy-saving practices allow companies to save money, thus improving profitability as well as having an environmental impact. “There are many socially aware investors willing to pay a premium to invest in green companies in the hope of getting better returns
- The Greenex is targeted at retail, as well as institutional investors such as pension funds looking for investments in companies with strong long-term prospects and develop green financial products.
- Investors can invest in a mutual fund that invests in companies that form this Greenex.

INDIA, PAKISTAN AND ICP

India, Pakistan agree to encourage greater trade through new Integrated Checkpost, India and Pakistan have agreed to draw a road map for allowing a whole spectrum of items for trade through the land route — Attari-Wagah. The products include pharmaceuticals and related products, cement, livestock, newsprint, petrochemicals, fabric and raw jute. At present, 150-odd items are allowed to be exported to Pakistan through the land route and by truck. After the pruning of the negative list by Pakistan last month, the number of items India could export has gone up to nearly 7,800.

The aim is to permit all items not in the Negative List to be traded across the land border at Attari-Wagah, As per the Pakistan Government’s March 20 order, a Negative List of 1209 tariff lines has been announced. In accordance with the Pakistan Cabinet decision, complete phasing out of the Negative List by December 2012 is subject to further negotiations.

Existing infrastructure available with Customs, Immigration and other regulatory agencies at the Land Custom Stations (LCSs) is generally inadequate. Support facilities such as warehouses, parking lots, banks, hotels, fuel outlets etc. are inadequate. Regulatory and support functions in an integrated manner are not available in one complex. There is no single agency responsible for coordinated functioning of various Government authorities/ service providers. To redress this situation, Government have decided to set up 13 Integrated Check Posts (ICPs) at identified entry points on the international land borders of the country through a Plan Scheme in the 11th Plan at an estimated cost of Rs.635 crore. The ICPs shall be a sanitized zone with dedicated passenger and cargo terminal providing adequate customs and immigration counters, X-ray scanners, passenger amenities and other related facilities like service stations, fuel stations etc. in a single modern complex equipped with state of the art amenities. An institutional framework viz.

Land Ports Authority of India (LPAI) The Land Ports Authority of India (LPAI) has been envisaged as a statutory body which will function as a body corporate under the administrative control of the Department of Border Management, Ministry of Home Affairs. The LPAI is expected to provide better administration and cohesive management of entry points/land ports on the land borders and would be vested with the powers on the lines of similar bodies like Airports Authority of India.

Land Ports Authorities of India (LPAI) will be established and charged with the responsibility to undertake the construction, management and maintenance of ICPs. A list of 13 ICPs proposed to be set up is as under :

PHASE - I

S. No.	Location	State	Border,	Estimated cost (Rs. in crores)
1.	Petrapole	West Bengal	India-B'desh	172**
2.	Moreh	Manipur	India-Myanmar	136
3.	Raxaul	Bihar	India-Nepal	120
4.	Attari (Wagah)	Punjab	India-Pakistan	150
5.	Dawki	Meghalaya	India-B'desh	50*
6.	Akhaura	Tripura	India-B'desh	60**
7.	Jogbani	Bihar	India-Nepal	34**

Phase – II

S. No.	Location	State	Border	Estimated cost (Rs. in crores)
8.	Hili	West Bengal	India-B'desh	78*
9.	Chandrabangha	West Bengal	India-B'desh	64*
10.	Sutarkhandi	Assam	India-B'desh	16*
11.	Kawarpuchiah	Mizoram	India-B'desh	27*
12.	Sunauli	Uttar Pradesh	India-Nepal	34*
13.	Rupaidiha	Uttar Pradesh	India-Nepal	29* 10

* The project costs of 4 ICPs viz, Petrapole, Moreh, Raxaul and Attari have been finalized by the Government. The project cost of the remaining 09 ICPs is yet to be firmed up.

** Jogbani ICP was brought under Phase I

The LPAI Bill was introduced in the Parliament on 18th December,2008 but could not be passed during the tenure of the 14th Lok Sabha due to its dissolution. The LPAI Bill was re-introduced on 7th August, 2009 and has been referred to the Department Related Parliamentary Standing Committee for its consideration. The several meetings of the DRPSC were held. They have submitted the report to the Parliament. Examination of the report has been done by the Ministry and legal vetting has also been completed by Department of Law. The Cabinet has approved the Bill with certain amendments suggested by the Department Related Parliamentary Standing Committee. The Bill has been introduced in the Parliament for its approval.

India to open FDI gate to Pakistan

India has decided in principle to allow foreign direct investment from Pakistan, as part of the road map to enhance economic engagement, a development that is expected to boost bilateral trade.Both countries have also agreed in principle to allow opening of bank branches to guarantee smooth trade. This is the upshot of several rounds of talks between the Reserve Bank of India (RBI) and the State Bank of Pakistan.

Both the RBI and the State Bank of Pakistan are in favour of opening up branches on both sides of the border

Pro-active steps

Encouraged by the pro-active steps taken by Pakistan, India would carry out a review of 30 per cent of the 'sensitive list' in the next four months as a confidence-building measure, Pakistani banks and businesses are keen on setting up shop in India, and the decision could pave the way for their entry into the country.

Business council

Mr. Sharma also announced that an India-Pakistan business council would be set up soon. It would be co-chaired by both countries.The procedures, and the requirements, for allowing FDI were being formulated, and would soon be notified.

Free Trade Agreement with Bangladesh

A **Free Trade Agreement** between India and Bangladesh could increase bilateral trade volume by over **100 per cent**, says a new World Bank lead economist Sanjay Kathuria said while releasing a **report** titled '**Unlocking Bangladesh-India Trade**' at a CII function.

In 2004, India and Bangladesh had exchanged their documents for FTA and negotiations were underway. However, talks were stalled over a few issues like India's exports to Bangladesh include cotton, cereals, nuclear reactors, boilers and machinery, while imports from the neighbouring country comprise edible fruit and nuts, fish, apparel and textiles articles.

India's closer economic cooperation with Bangladesh can be an important stepping-stone to reduce the economic isolation of India's north-eastern States. The agreement would also be beneficial for Bangladesh as more manufacturing activity would take place which would generate more employment opportunities. An FTA between the two nations would increase Bangladesh's exports to India by 182 per cent and that of India's to Bangladesh by 126 per cent,".

Further, the report said that the issue of trade surplus, which is in favour of India, could be **addressed by encouraging investments into the neighbouring nation**. It said investments by Indian companies in the neighbouring nation would not only **create jobs**, but would **also increase production of goods**, **which in turn, could be re-exported** to India.

Kakodkar Committee

The Kakodkar high-level railway safety review committee, which submitted its recommendations, Committee may not have said anything new or different from the past but it has chosen to tell the Railways how to mobilise the funds for a long overdue, massive safety upgrade programme over the next five years, with an estimate for Rs.1 lakh crore. What's new about the Kakodkar committee is that it tells the Railways how to generate that level of funding.

The committee has broken up the Rs.1 lakh crore programme into different components: And expects the Finance Minister to grant him a budget support of Rs.20,000 crore or more next month

Some of the major recommendations of this Report are as follow:

- Implementation of Advance Signaling System through Special Purpose Vehicle and an expert group for technical issue with an estimated cost of Rs. 20, 000 crore for 19000 route kilometers on trunk route.
- Elimination of Al l Level Crossings (manned and unmanned both) with an estimated coast of Rs. 50, 000 crore over five years.
- All new coaches to be only of LHB design which are much safer for present speeds and train lengths, with a total cost of Rs. 10, 000 crore over five years.
- Maintenance of safety related infrastructural and other items with total cost of Rs. 20000 crore.
- The total financial implication over the five year period would be Rs 100, 000 crore.
- The committee also suggested mode of funding, which includes safety cess on passengers, deferred dividend, road cess, matching grant by the Centre.

Nelson Complexity Index

Nelson Complexity Index - Nelson Complexity Index is a measure of secondary conversion capacity in comparison to the primary distillation capacity of any refinery. It is an indicator of not only the investment intensity or cost index of the refinery but also the value addition potential of a refinery. Thus, the higher the index number, the greater the cost of the refinery and the higher the value of its products. Help in making refinery capable of processing cheaper, higher sulphur and heavy crude

Empowered Group of Ministers on Power

The Empowered Group of Ministers (EGoM) for taking decisions on addressing the concerns of the power sector have not taken place for a long time.

A Committee of Secretaries (CoS) has been constituted by the Prime Minister, to address the concerns of the power sector. The CoS, to be headed by the Prime Minister's Principal Secretary, Pulok Chatterji, will look into issues such as shortage of coal and gas, price of imported coal, hike in power tariff and second-generation reforms of the sector.

The CoS would work out a 30-day, 60-day and 90-day action plan to address the short and long term concerns of this sector.

Rangarajan heads experts panel on poverty line review

The government set up an expert technical group headed by Prime Minister's Economic Advisory Council (PMEAC) Chairman C. Rangarajan to review the Tendulkar Committee methodology for estimating poverty and overhaul the norms in keeping with the present-day prices. The five-member group is expected to submit its report in 7-9 months.

Terms of Reference

The terms of reference of the panel include recommending how the poverty estimates should be linked to eligibility and entitlements for Government schemes and programmes.

The panel will also comprehensively review the existing methodology of poverty estimation and examine whether the poverty line should be fixed solely in terms of the consumption basket or whether other criteria are also relevant. "If so, whether the two can be effectively combined.

The technical experts will also look at methods of poverty estimation in other countries and indicate whether any particular method can be evolved for measuring poverty in India.

The Government said it set up a new panel after taking note of various points of view in the public domain with respect to the need to revisit poverty estimates as well as the methodologies.

The earlier estimation was done by using the Tendulkar Committee methodology, which defined the poverty line by calculating per capita spending on food, education and health.

The experts panel has been directed to examine the issue of divergence between consumption estimates based on the NSSO (National Sample Survey Organisation) methodology and those emerging from the National Accounts aggregates and suggest a methodology for updating consumption poverty lines using the new consumer price indices launched by the CSO for rural and urban areas State-wise.

Panel to review Production Sharing Contracts

The government, announced the constitution of a committee under the chairmanship of C. Rangarajan, Chairman, Prime Minister's Economic Advisory Council, to review the existing production sharing contracts (PSCs) in light of the recent spat between Reliance Industries Ltd.

(RIL) and the Petroleum Ministry.The review comes after the Comptroller and Auditor General (CAG) in its draft report had asked the Petroleum Ministry to carry out a comprehensive review of the PSCs to protect the interests of the Government.

The Committee would carry out a review of the existing PSCs, including in respect of the current profit-sharing mechanism with the pre-tax investment multiple (PTIM), as the base parameter and recommend necessary modification for the future PSCs ,The committee will also look into the structure and elements of the guidelines for determining the basis or formula for the price of domestically produced gas, and for monitoring actual price fixation; and any other issues relating to PSCs.It will also explore various contract models with a view to minimising monitoring of expenditure of the contractor without compromising,.

Production Sharing Contracts

An agreement between Contractor and Government whereby Contractor bears all exploration risks, production and development costs in return for its stipulated share of production resulting from this effort. These costs are recoverable in case of commercial discovery.

Following activities are being carried out in PSC

- Review of work Programme and budget of all exploration blocks and fields under PSC's.
- Facilitating of statutory and other clearances.
- Management Committee Meetings.
- Assignment of Participating Interest.
- Extension of phases, relinquishment of acreages, assignment, appointment of auditor, approval of auditing account and other PSC related issues as and when arise.

Rangarajan Panel Report

Rangarajan Committee has suggested mandating a price of domestically-produced natural gas at an average of international hub prices and cost of imported LNG (suggested first taking an average of the U.S., Europe and Japanese hub or market price and then averaging it out with the netback price of imported liquefied natural gas (LNG) to give the sale price of domestically-produced gas) instead of the present mechanism of market discovery.

The panel said that PSC provided for arm's length pricing and prior government approval of the formula or basis for gas pricing, subject to policy on natural gas pricing.

The panel has also suggested changes in production sharing contracts (PSCs) with energy firms, prospectively, saying the current practice of cost recovery is flawed. "Since cost recovery is at the root of the problems experienced, it is proposed to dispense with it, in favour of sharing of the overall revenues of the contractor, without setting off any costs. The share will be determined through a competitive bid process

Arm's length price

The committee recommended deriving one price from "the volume-weighted netback price to producers at (LNG) exporting country well-head for Indian imports for the trailing 12 months."

Simultaneously, the volume-weighted price of U.S.' Henry Hub, U.K.'s NBP and Japan Custom Cleared prices for the trailing 12 months be calculated.

"The arm's length price thus computed as the average of the two price estimates would apply equally to all sectors.

The suggested formula

The committee has also recommended that an extended tax holiday of 10 years, as against 7 years already available for all blocks, be granted for blocks having a substantial portion involving drilling offshore at a depth of more than 1,500 metres, since the cost of a single well can be as high as $150 million.

Further, the committee has recommended extending the timeframe for exploration in future PSCs for frontier, deep-water (offshore, at more than 400 m depth) and ultra-deep water (offshore, at more than 1,500 m depth) blocks from eight years to ten years.

CAG has power to audit oil & gas blocks

Dr. Rangarajan said blocks with low value could be audited by panel of auditors formed by CAG and for high value blocks, the official auditor should audit directly.

The CAG had the power to decide the value of the block that would be audited by it directly, he said the Rangarajan Committee has suggested shunning the present cost recovery model that allows operators like RIL to first recover all their investment before sharing profits with the government.

For the future, the panel suggested bidding out the blocks based on the highest production share offered.

Corporate View

Industry sources, however, raised doubts saying acceptance of the recommendations would lead to overriding of the signed contracts. Currently, Production Sharing Contracts (PSC) provide for gas being sold at an arms-length price discovered through market bids invited from potential users. Acceptance of the recommendation would mean government mandating a price of gas and ending the last of the remaining freedoms available.

RASHTRIYA SWASTHYA BIMA YOJANA

Ministry of Labour and Employment, Government of India has launched a health insurance scheme for BPL families which is called Rashtriya Swasthya Bima Yojana (RSBY).

The beneficiary is any Below Poverty Line (BPL) family, whose information is included in the district BPL list prepared by the State government. The eligible family needs to come to the enrollment station, and the identity of the household head needs to be confirmed by the authorized official.

Rashtriya Swasthya Bima Yojana provides cover for hospitalization expenses upto Rs. 30,000/- for a family of five on a floater basis. Transportation charges are also covered upto a maximum of Rs. 1,000/- with Rs. 100/- per visit.

The premium for RSBY is different in different set of districts. State Governments select insurance companies through open tendering process and technically qualified lowest bid is selected.

Government pays the premium for RSBY. Central Government pays 75% of the total premium (90% in case of Jammu & Kashmir and North east States) while State Government pays the remaining premium. Beneficiaries need to pay Rs. 30 per family at the time of enrollment.

There are **problems** with the RSBY:

The Rashtriya Swasthya Bima Yojna (RSBY) insurance scheme sponsored health insurance scheme allows the insured to obtain treatment in private hospitals also, where most of the hysterectomies were done.

No support for outpatient care in this scheme despite the fact that out of pocket expenses for outpatient care is the most frequent cause of indebtedness due to private medical care;

Insurance companies are neither interested in ensuring enrolment of all, nor in swift renewal of the cards;

Increasing annual premium rates are increasing the cost of care recent studies have shown that the government is not even allotting enough funds required to pay for claims of all the beneficiaries.

A quick look at procedural faults in the RSBY tells you the enormous errors committed right from the initial steps of registration. Wrong age ascertainment, wrong names, names being excluded, entire families being missed out because they were not at home when teams went to their home, etc. — making a complete mockery of the process.

On the one hand, people covered by the scheme are going for all kinds of procedures they may not need, and on the other, many people have been left out of the RSBY, raising questions about its claims to be a universal health coverage scheme

The Planning Commission appointed high level expert group on health care (HLEG) has pointed to the dangers of the RSBY, and has suggested universal quality health care free of cost to all, which is provided predominantly by the government and complemented by a well regulated private sector with defined scope, quality, timeliness and compensation.

RBI panel increases priority sector lending target for foreign banks

The Reserve Bank of India (RBI) panel on priority sector lending proposed that the target (priority sector) for foreign banks may be increased to 40 per cent of net bank credit from the current level of 32 per cent with sub-targets of 15 per cent for exports and 15 per cent for the MSE sector, within which 7 per cent may be earmarked for micro enterprises.

The target of domestic scheduled commercial banks for lending to the priority sector may be retained at 40 per cent of net bank credit.

The committee suggested that the sector 'agriculture and allied activities' may be a composite sector within the priority sector, by doing away with the distinction between direct and indirect agriculture. However, the targets for agriculture and allied activities would be at 18 per cent. .

A sub-target for small and marginal farmers within agriculture and allied activities is recommended, equivalent to 9 per cent, which would be achieved in stages by 2015-16.

The MSE sector may continue to be under the priority sector. Within the MSE sector, a sub-target for micro enterprises is recommended, equivalent to 7 per cent, which would also be achieved in stages by 2013-14.

The loans to housing and education may continue to be under the priority sector. Loans for construction or purchase of one dwelling unit per individual up to Rs.25 lakh; loans up to Rs.2 lakh in rural and semi urban areas and up to Rs.5 lakh in other centres for repair of damaged dwelling units may be granted under the priority sector.

To encourage construction of dwelling units for economically weaker sections and low income groups, housing loans granted to these individuals may be included in the weaker sections category. All loans to women under the priority sector may also be counted under loans to weaker sections. The limit under the priority sector for loans for studies in India may be increased to Rs.15 lakh and Rs.25 lakh in case of studies abroad, from the existing limit of Rs.10 lakh and Rs.20 lakh, respectively.

The committee recommended allowing non-tradable priority sector lending certificates on a pilot basis with domestic scheduled commercial banks, foreign banks and regional rural banks as market players.

SEBI guidelines set stage for disinvestment

The Securities and Exchange Board of India (SEBI) permitted promoters of top 100 listed companies to quickly dilute their shares through a separate window on the BSE and the National Stock Exchange.

The decision will also help the government expeditiously offload its stake in public sector companies and raise funds for achieving the disinvestment target of Rs.40,000 crore for the current fiscal.

All listed companies are required to have at least 25 per cent public holding while in case of state-owned company the limit is 10 per cent.

The guideline said that minimum of 25 per cent of the shares offered shall be reserved for mutual funds and insurance companies.

TWIN DEFICIT

A twin deficit occurs when a nation has both a current account deficit and a fiscal deficit. A twin deficit is also called a double deficit.

The current account is an account on the balance of payments. The current account records a nation's net imports and exports. If imports exceed exports, that nation has a current account deficit. If exports exceed imports, that nation has a current account surplus.

Government budgets consist of monetary inflows from tax revenue and borrowing, and monetary outflows from expenditures and interest payments. Governments borrow money by issuing bonds, and then pay interest on those issuances. A fiscal deficit occurs when government spending exceeds government revenues. A fiscal surplus occurs when government revenues exceed government spending. A fiscal deficit is also called a budget deficit or a budgetary deficit.

Current Account Deficit – Fiscal Deficit The twin deficit, or double deficit, occurs when a nation has both a current account deficit and a budget deficit. This means the country's economy is importing more than it is exporting, and the country's government is spending more money than it is generating. When a country has a double deficit, it is a debtor to the rest of the world. Over the long term, a double deficit may cause the nation's currency to devalue.

Why Does the Double Deficit Matter? The budgetary deficit represents a significant portion of federal spending that must be financed through the issuance of debt. This is generally not viewed as favorable as such debt increases the amount of high quality debt available for investors and negatively impacts the supply of funds for private borrowers, thereby raising the real interest rate for private loans. In addition, the future generations who will have to pay for such borrowings through increased tax collections will not enjoy the full benefit of the additional government spending today.

WTO AND SPS AGREEMENT

The Agreement on the Application of Sanitary and Phytosanitary Measures (the "SPS Agreement") entered into force with the establishment of the World Trade Organization on 1 January 1995. It concerns the application of food safety and animal and plant health regulations

Reaffirming that no Member should be prevented from adopting or enforcing measures necessary to protect human, animal or plant life or health, subject to the requirement that these measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between Members where the same conditions prevail or a disguised restriction on international trade;

This Agreement applies to all sanitary and phytosanitary measures which may, directly or indirectly, affect international trade. Such measures shall be developed and applied in accordance with the provisions of this Agreement.

Desiring to further the use of harmonized sanitary and phytosanitary measures between Members, on the basis of international standards, guidelines and recommendations developed by the relevant international organizations, including the Codex Alimentarius Commission, the International Office of Epizootics, and the relevant international and regional organizations operating within the framework of the International Plant Protection Convention, without requiring Members to change their appropriate level of protection of human, animal or plant life or health

Recognizing that developing country Members may encounter special difficulties in complying with the sanitary or phytosanitary measures of importing Members, and as a consequence in access to markets, and also in the formulation and application of sanitary or phytosanitary measures in their own territories, and desiring to assist them in their endeavours in this regard;

Desiring to improve the human health, animal health and phytosanitary situation in all Members;

1. Members have the right to take sanitary and phytosanitary measures necessary for the protection of human, animal or plant life or health, provided that such measures are not inconsistent with the provisions of this Agreement.
2. Members shall ensure that any sanitary or phytosanitary measure is applied only to the extent necessary to protect human, animal or plant life or health, is based on scientific principles and is not maintained without sufficient scientific evidence, except as provided for in paragraph 7 of Article 5.
3. Members shall ensure that their sanitary and phytosanitary measures do not arbitrarily or unjustifiably discriminate between Members where identical or similar conditions prevail, including between their own territory and that of other Members. Sanitary and phytosanitary measures shall not be applied in a manner which would constitute a disguised restriction on international trade.

The U.S. has approached the World Trade Organization (WTO), seeking a dispute settlement panel to decide American claims that Indian restrictions on imports of various U.S. agricultural products, including poultry meat and chicken eggs, were discriminatory.

RBI relaxes ECB norms for infrastructure companies

Giving a boost to infrastructure sector funding, the Reserve Bank of India relaxed the external commercial borrowings (ECB) norms to help companies raise more funds from overseas markets. The RBI has allowed companies engaged in the infrastructure sector to raise bridge finance from overseas markets under the automatic route. Under the earlier provision, the companies were required to take permission of the RBI for raising bridge finance, which is a kind of interim arrangement for short-term credit.

The RBI through a separate notification, has also allowed companies in the infrastructure sector to raise ECB up to a maximum period of five years for importing capital goods.Under the new norms, trade credit should not be for a period of less than 15 months and also not in the nature of short-term rollover finance.Earlier, the companies could raise ECBs for a period ranging from one year to three years..

The credit facility would be available up to $20 million per transaction for import of capital goods as classified by the Directorate General of Foreign Trade (DGFT).

The RBI has also relaxed the ECB norms for repayment of rupee loans within the overall ceiling of $20 billion.

RBI revises definition of infra lending

The Reserve Bank of India (RBI) revised the definition of 'infrastructure lending', which would make sectors and sub-sectors eligible for infrastructure lending by banks and financial institutions with immediate effectUnder the RBI's previous definition of infrastructure — as per the circular of November 30, 2007, but not included under the revised definition, will continue to get the benefits under 'infrastructure lending' till the completion of the projects.

The Government of India had notified a master list of infrastructure sectors/sub-sectors in March 2012 to avoid multiplicity of definitions among various regulators which gives rise to confusion and difficulties. The sectors and sub-sectors come under revised infrastructure lending are:

Transport: Roads and bridges, ports inland waterways, airport, railway track, tunnels, viaducts, bridges, including supporting terminal infrastructure such as loading/unloading terminals, stations and buildings, urban public transport

Energy: Electricity generation, electricity transmission, electricity distribution, oil pipelines and oil/gas/liquefied natural gas (LNG) storage facility (including strategic storage of crude oil) and gas pipelines, including city gas distribution network.

Water and sanitation: Solid waste management, water supply pipe lines, water treatment plants, sewage collection, treatment and disposal system and irrigation (dams, channels, embankments and the like) and storm water drainage system.

Social and commercial infrastructure: Educational institutions (capital stock), hospitals (capital stock), including medical colleges, para medical training institutes and diagnostics centres and three-star or higher category classified hotels located outside cities with population of more than one million.

NBFC-MFI norms modified

All registered non-banking financial companies (NBFCs) intending to convert themselves into non-banking financial company-micro finance institutions (NBFC-MFIs) must seek registration with immediate effect, by Reserve Bank of India.

The NBFCs have to maintain net-owned funds (NOF) at Rs..3 crore by March 31, 2013, and at Rs.5 crore by March 31, 2014, "failing which they must ensure that lending to the micro finance sector, that is, individuals, SHGs or JLGs, which qualify for loans from MFIs, would be restricted to 10 per cent of the total assets.

In order to provide encouragement to NBFCs operating in the north-eastern region, the minimum NOF is to be maintained at Rs.1 crore by March 31, 2012, and at Rs.2 crore by March 31, 2014.All new companies desiring NBFC-MFI registration will need a minimum NOF of Rs.5 crore except those in the north-eastern region Rs.2 crore.

It has also been decided that the cap on margins as defined by the Malegam Committee may not exceed 10 per cent for large MFIs (loans portfolios exceeding Rs.100 crore) and 12 per cent for others.

NBFCs may need prior RBI nod for ownership change

- Non-banking financial companies (NBFC) would need RBI's prior approval before making changes in their ownership control, where there is a change in control and increase of shareholding to the extent of 25 per cent by individuals or groups, directly or indirectly.
- The draft guidelines, based on the Usha Thorat Committee report, also seek to make mandatory for all deposit-taking NBFCs to obtain credit rating.
- Appointment of CEOs of NBFCs with asset size of Rs.1,000 crore and above would require the RBI approval, it added.
- In the interest of good governance and the sensitivities associated with NBFCs... such companies, whether listed or not, will need to comply with Clause 49 of SEBI's listing agreement on corporate governance including induction of independent directors," the draft said.
- The draft norms said existing unrated NBFCs-D will be given one year to get rated, "thereafter, they would not be allowed to accept any fresh deposits or renew existing deposits, till they get themselves rated.
- Regarding non-performing assets (NPAs), the RBI has proposed that asset classification and provisioning norms should be made similar to that of banks for all registered NBFCs irrespective of the size.
- At present, the period for classifying loans into NPAs in case of NBFCs is higher at 180/360 days compared to 90 days for banks.

New Housing Scheme

- To protect the interests of the poor and marginalised sections of society, the Housing and Urban Poverty Alleviation Ministry has launched a unique Credit Risk Guarantee Fund Scheme (CRGFS) for low-income housing.The country faces a shortfall of 18.5 million houses while 11 per cent of existing houses lie vacant.
- The scheme envisages the creation of the Credit Risk Guarantee Fund Trust with an initial corpus of Rs. 1,000 crore translating into loan a disbursement of a whopping Rs. 60,000 crore. The launch witnessed signing of memorandums of understanding between the National Housing Bank (NHB) on the one side and the HDFC Bank, State Bank of India and Central Bank of India on the other.
- The trust and the scheme will guarantee housing loans made by lending institutions like commercial banks, regional rural banks, housing finance companies, cooperative housing finance societies, etc. once they get into an agreement with the National Housing Bank.
- The scheme ensures that the loan amount, not exceeding Rs. 5 lakh per loan, shall be made available without any collateral and/or third party guarantees.
- Loans can be taken for purposes of home improvement, construction, acquisition and purchase of new or second hand dwelling units of size up to 430 sq ft (40 sq. mt) carpet area; beneficiaries would be new or existing individual borrowers from the economically weaker sections (EWS or LIG) and borrowers forming a group or housing society of at least 20 members.

Special sops to set up units in NIMZs

- Concessions such as capital gains tax exemption and liberalised labour and environmental laws would be given to those who set up units in the defined National Industrial Manufacturing Zones (NIMZ).
- The State governments had to provide land banks for setting up such manufacturing zones for boosting industrial growth and creating employment opportunities.
- Under the National Manufacturing Policy (NMP), the government has proposed to set up National Investment and Manufacturing Zones (NIMZs). NIMZs are conceptualised as integrated industrial townships of at least 50 sq. km (5,000 hectares) with state-of-the-art infrastructure.
- The NMP aims to increase the share of the sector to at least 25 per cent by 2020 from the present 16 per cent. It also aims at creating 100 million jobs by 2020.
- The government has notified nine NIMZs — one each in Haryana, Uttar Pradesh, Gujarat and Madhya Pradesh; two in Rajasthan and three in Maharashtra. The decline in manufacturing sector growth pulled down the overall industrial expansion to just 0.1 per cent .

Cabinet approves setting up of National Investment Board

- The Union Cabinet has cleared way for setting up of National Investment Board (NIB). It has been renamed as Cabinet Committee on Investment (CCI) and will be chaired by prime minister and comprise members from various ministries.
- The Cabinet has given an in-principle approval to the committee on December 13. It will take a week's time to decide on its members and function.
- The idea to set up NIB comes from the CAG report on allocation of coal blocks and augmentation of coal production. It recommended setting up of a body on the lines of the Foreign Invest Promotion Board (FIPB) as a single window to grant the necessary clearances such as mining leases, mining plan, forest clearance, environmental management plan and land acquisition for accelerating commencement of mining.

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- The idea was then picked up by the expenditure department of Union finance ministry. The ministry alleged that green clearances are holding up the country's infrastructure development and growth . It favoured setting up a national investment board for taking decisions on environmental and forest clearances of projects in case the Union Ministry of Environment and Forests (MoEF) fails to do so within a stipulated time frame.
- Then Minister of state for environment and foreststo Prime Minister expressing concern over setting up of such a body. MoE&F pointed out that according to a note on NIB, circulated by department of expenditure, the body was to set deadlines for granting clearances which includes environmental clearances, for ultra mega projects of Rs 1,000 crore and above.
- Union finance minister, clarified that the board will only monitor projects having more than Rs 1,000 crore investment and help the concerned ministries take a decision.

Residency certificate a must for foreign investors to get tax benefit

The government has mandated that from April 1, 2013, all foreign investors desirous of claiming benefits under the double taxation avoidance agreements (DTAAs) will have to produce tax residency certificates (TRC) of their base country in which they are located.

Accordingly, the TRC to be obtained by an assessee for availing himself of tax benefits shall contain the name of the assessee along with status — whether it is an individual or a company — the nationality (in case of individual) and the country wherein the company or firm is registered or incorporated. , the TRC should have the tax identification number (TIN) of the assessee, its residential status for the purposes of tax, the period for which the TRC is applicable and the address of the assessee for that period. Also, the certificate shall be duly verified by the government of the country or the specified territory of which the assessee claims to be a resident for the purposes of tax.

A clause in the various DTAAs that India has entered into, the assessee can take the advantage of paying capital gains tax in either of the two nations, wherever the rate of the levy is lower.

Declared goods as per CST Act

There are restrictions on imposition of sales tax on declared goods.

Article 286(3)(a) of Constitution of India authorizes Parliament to declare some goods as of 'special importance' and to impose restrictions and conditions in regard to power of States in regard to levy, rates and other incidence of tax on such goods. Parliament can restrict powers of State Government to tax such 'declared goods'. Section 2(c) of CST Act defines 'Declared Goods' as those declared under section 14 of CST Ac t as 'goods of special importance in Inter State Trade or commerce. Section 14 of CST Ac t gives a list of such goods and section 15 specifies restrictions on power of States to tax such goods.

ADDITIONAL EXCISE IN LIEU OF SALES TAX - Industries urged that central excise duty and sales tax should be collected at one stage itself so that multiple taxation is avoided. Central Government and State Governments agreed to replace sales tax on some commodities with excise duty. With this in view, Additional Excise Duty was imposed on some goods under the Act 'Additional Duty of Excise (Goods of Special Importance) Ac t, 1957'. Additional excise duty is levied on textile fabric s, sugar and tobacco products under this Ac t. These three items are also 'Declared Goods' under CST. This list could not be widened much later, due to difference of opinions between State Governments and Central Government Goods of special importance - Section 14 gives list of 'goods of special importance' called 'declared goods'.

Important among them are:

- Cereals i.e. paddy, rice, wheat, bajra, jowar, barley etc.
- Coal and coke in all forms excluding charcoal.

- Cotton in un-manufactured form but not cotton waste Cotton fabrics, cotton yarn.
- Crude oil Hides and skins Iron and Steel i.e. pig iron, sponge iron, iron scrap, steel ingots, billets, steel bars, steel structural's, sheets, plates, discs, rings, tool steel, tubes, tin plates, steel wheels, wire rods; defectives of above etc.
- Jute
- Oil-seeds i.e. groundnut, til, cotton seed, linseed, castor, coconut, sunflower, mahua, kokum, sal etc.
- Pulses i.e. gram, tur, moong, masur, urad etc.
- Man-made fabrics - fabrics of man-made filament yarn i.e. artificial textile materials, polyester filament yarn, staple fibres, polyester staple fibre, tyre cord fabric, impregnated textile fabrics etc. Sugar and Khandsari Sugar
- Woven fabrics of wool
- Aviation Turbine Fuel sold to a turbo-prop aircraft

  {Un-manufactured tobacco, cigars, cigarettes, biris, chewing tobacco, snuff etc. were 'declared goods' upto 31-3-2007. Now, they are not 'declared goods' w.e.f. 1-4-2007.}

Financial Inclusion

Financial Inclusion or Inclusive Financing is the delivery of financial services, at affordable costs, to sections of disadvantaged and low income segments of society. Unrestrained access to public goods and services is the sine qua non of an open and efficient society. It is argued that as banking services are in the nature of public good; the availability of banking and payment services to the entire population without discrimination is the prime objective of this public policy.

Financial inclusion and UN

On 29 December 2003, then-UN Secretary-General Kofi Annan said: "The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together, we can and must build inclusive financial sectors that help people improve their lives."

According to the United Nations the main goals of inclusive finance are as follows:

1. Access at a reasonable cost of all households and enterprises to the range of financial services for which they are "bankable," including savings, short and long-term credit, leasing and factoring, mortgages, insurance, pensions, payments, local money transfers and international remittances.
2. Sound institutions, guided by appropriate internal management systems, industry performance standards, and performance monitoring by the market, as well as by sound prudential regulation where required
3. Financial and institutional sustainability as a means of providing access to financial services over time
4. Multiple providers of financial services, wherever feasible, so as to bring cost-effective and a wide variety of alternatives to customers (which could include any number of combinations of sound private, non-profit and public providers).

Financial Inclusion in India

The history of financial inclusion in India is actually much older than the formal adoption of the objective. The nationalization of banks, Lead Bank Scheme, incorporation of Regional Rural Banks, Service Area Approach and formation of Self-Help Groups - all these were initiatives aimed at taking banking services to the masses. The brick and mortar infrastructure expanded; the number

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of bank branches multiplied ten-fold - from 8,000+ in 1969, when the first set of banks were nationalized, to 99,000+ today. Despite this wide network of bank branches spread across the length and breadth of the country, banking has still not reached a large section of the population. The extent of financial exclusion is staggering. Out of the 600,000 habitations in the country, only about 36,000+ had a commercial bank branch. Just about 40 per cent of the population across the country has bank accounts. The proportion of people having any kind of life insurance cover is as low as 10 per cent and proportion having non-life insurance is abysmally low at 0.6 per cent. People having debit cards comprise only 13 per cent and those having credit cards only a marginal 2 per cent of the population.

A more focused and structured approach towards financial inclusion has been followed since the year 2005 when Reserve Bank of India decided to implement policies to promote financial inclusion and urged the banking system to focus on this goal. Our focus has, specifically, been on providing banking services to all the 600 thousand villages and meeting their financial needs through basic financial products like savings, credit and remittance. The objectives of financial inclusion, in the wider context of the agenda for inclusive growth, have been pursued through a multi-agency approach. In 2006, the Government of India constituted a Committee on Financial Inclusion[6], which made a wide range of recommendations on the strategies for building an inclusive financial sector and gave a national rural financial inclusion plan. Government of India has set up the Financial Stability and Development Council (FSDC), which is mandated, *inter alia,* to focus on Financial Inclusion and Financial Literacy issues. In order to further strengthen the ongoing financial inclusion agenda in India, a high level Financial Inclusion Advisory Committee has been constituted by RBI. The Committee would pave the way for developing a viable and sustainable banking services delivery model focussing on accessible and affordable financial services, developing products and processes for rural and urban consumers presently outside the banking network and for suggesting appropriate regulatory framework to ensure that financial inclusion and financial stability move in tandem. Financial sector regulators including RBI are fully committed to the Financial Inclusion Mission.

The Reserve Bank of India (RBI), which became an official member institution of the Alliance for Financial Inclusion in 2012, set up the Khan Commission in 2004 to look into financial inclusion and the recommendations of the commission were incorporated into the mid-term review of the policy (2005–06). In the report RBI exhorted the banks with a view of achieving greater financial inclusion to make available a basic “no-frills” banking account. In India, financial inclusion first featured in 2005, when it was introduced by K C Chakraborthy, the chairman of Indian Bank. Mangalam Village became the first village in India where all households were provided banking facilities. Norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. General credit cards (GCCs) were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions, and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators or business correspondents by commercial banks. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign, states or union territories like Puducherry, Himachal Pradesh and Kerala announced 100% financial inclusion in all their districts. Reserve Bank of India’s vision for 2020 is to open nearly 600 million new customers’ accounts and service them through a variety of channels by leveraging on IT. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a roadblock to financial inclusion in many states and there is inadequate legal and financial structure.

It is necessary to point out that MFIs/NBFCs/NGOs on their own may not be able to bring about financial inclusion, as the range of financial products and services which are considered as the bare minimum for financial inclusion purposes, cannot be offered by them. But they play an extremely important role in furthering financial inclusion in the sense that they bring people and communities into the fold of the formal financial system

In India, RBI has initiated several measures to achieve greater financial inclusion, such as facilitating no-frills accounts and GCCs for small deposits and credit.

Some of these **steps** are:

Opening of no-frills accounts: Basic banking no-frills account is with nil or very low minimum balance as well as charges that make such accounts accessible to vast sections of the population. Banks have been advised to provide small overdrafts in such accounts.

Relaxation on know-your-customer (KYC) norms: KYC requirements for opening bank accounts were relaxed for small accounts in August 2005, thereby simplifying procedures by stipulating that introduction by an account holder who has been subjected to the full KYC drill would suffice for opening such accounts.The banks were also permitted to take any evidence as to the identity and address of the customer to their satisfaction. It has now been further relaxed to include the letters issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number.

Engaging business correspondents (BCs): In January 2006, RBI permitted banks to engage business facilitators (BFs) and BCs as intermediaries for providing financial and banking services. The BC model allows banks to provide doorstep delivery of services, especially cash in-cash out transactions, thus addressing the last-mile problem. The list of eligible individuals and entities that can be engaged as BCs is being widened from time to time. With effect from September 2010, for-profit companies have also been allowed to be engaged as BCs. India map of Financial Inclusion by MIX provides more insights on this[2] .

Use of technology: Recognizing that technology has the potential to address the issues of outreach and credit delivery in rural and remote areas in a viable manner,banks have been advised to make effective use of information and communications technology (ICT), to provide doorstep banking services through the BC model where the accounts can be operated by even illiterate customers by using biometrics, thus ensuring the security of transactions and enhancing confidence in the banking system.

Adoption of EBT: Banks have been advised to implement EBT by leveraging ICT-based banking through BCs to transfer social benefits electronically to the bank account of the beneficiary and deliver government benefits to the doorstep of the beneficiary, thus reducing dependence on cash and lowering transaction costs.

GCC: With a view to helping the poor and the disadvantaged with access to easy credit, banks have been asked to consider introduction of a general purpose credit card facility up to '25,000 at their rural and semi-urban branches. The objective of the scheme is to provide hassle-free credit to banks' customers based on the assessment of cash flow without insistence on security, purpose or end use of the credit. This is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned.

Simplified branch authorization: To address the issue of uneven spread of bank branches, in December 2009, domestic scheduled commercial banks were permitted to freely open branches in tier III to tier VI centres with a population of less than 50,000 under general permission, subject to reporting. In the north-eastern states and Sikkim, domestic scheduled commercial banks can now open branches in rural,semi-urban and urban centres without the need to take permission from RBI in each case, subject to reporting.

Opening of branches in unbanked rural centres: To further step up the opening of branches in rural areas so as to improve banking penetration and financial inclusion rapidly, the need for the opening of more bricks and mortar branches, besides the use of BCs, was felt. Accordingly, banks have been mandated in the April monetary policy statement to allocate at least 25% of the total number of branches to be opened during a year to unbanked rural centres.

Summarize, the major initiatives taken by RBI include the following:-

i) Encouraged the SHG-Bank Linkage Model, one of the largest micro finance models in the world, under which 4.79 million SHGs have been credit linked, covering 97 million poor households (till March 2012).

ii) Mandated Commercial Banks including Regional Rural Banks to migrate to the Core Banking Platform.

iii) Substantially liberalised the BC based service delivery model in phases.

iv) Permitted domestic scheduled commercial banks to freely open branches in Tier 2 to Tier 6 centres.

v) Mandated banks to open at least 25% of all new branches in unbanked rural centres.

vi) Substantially relaxed the Know Your Customer (KYC) documentation requirements for opening bank accounts for small customers.

vii) Encouraged Electronic Benefit Transfer for routing social security payments through the banking channel.

viii) Pricing for banks totally freed; Interest rates on advances totally deregulated.

ix) Separate programme for Urban Financial Inclusion initiated.

x) RBI has encouraged the ICT model which would enable banks to overcome the barriers of geography and ensure efficient financial inclusion.

Financial inclusion plans of banks for three years: RBI advised all public and private sector banks to submit a board-approved, three-year financial inclusion plan (FIP) starting April 2010. These plans broadly include self-set targets in respect of rural bricks and mortar branches opened; BCs employed; coverage of unbanked villages with a population above 2,000 as also other unbanked villages with population below 2,000 through branches; BCs and other modes; no-frills accounts opened, including through BC-ICT; KCCs and GCCs issued; and other specific products designed by them to cater to the financially excluded segments. Banks were advised to integrate board-approved FIPs with their business plans and to include the criteria on financial inclusion as a parameter in the performance evaluation of their staff. The progress by commercial banks (excluding RRBs) during the year 2010-11 clearly indicates that banks are on the right path towards deploying BCs, villages covered, opening of no-frills accounts, and grant of credit through KCCs and GCCs. The numbers would be much higher if the figures pertaining to RRBs were to be added.

The World Bank database, known as the Global Financial Inclusion database (Global Findex), provides survey based data as part of the annual Gallup World Poll. The survey conducted in 2011 covered at least 1,000 adults each in 148 economies using randomly selected, nationally representative samples. The focus of the Global Findex Database encompasses a set of indicators that measure how adults save, borrow, make payments, and manage risk, stressing thereby on how a well-functioning financial system serves the vital purpose of offering savings, credit, payment, and risk management products to people with a wide range of needs. Inclusive financial systems allowing broad access to financial services, without price or non-price barriers to their use, are especially likely to benefit poor people and other disadvantaged groups. Without inclusive financial systems, poor people must rely on their own limited savings to invest in their education or for entrepreneurial activities, while small enterprises would need to rely on their limited earnings to take advantage of promising growth opportunities. This can contribute to persistent income inequality and slower economic growth. Findex reports data in terms of the proportion of people (of age 15+) for a number of parameters such as (a) who have saved money with financial institutions or other sources, (b) taken loan from financial institutions or other sources, (c) paid for health / agriculture insurance and (d) used cheques / electronic payment / mobile payment systems for financial transactions