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Gist of India Year Book 2013

for Civil Services Preliminary (CSAT) & Main Examinations

Each chapter is compiled according to the requirement of civil services preliminary (CSAT) and main examination

Important points are highlighted for Quick revision

Multiple Choice Questions are given after each Chapter

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Chapter

13

FINANCE

CONTENTS OF THE CHAPTER

INTRODUCTION

- The Ministry of Finance comprises four departments, namely, (i) Economic Affairs, (ii) Expenditure, (iii) Revenue, and (iv) Disinvestment.

ECONOMIC AFFAIRS

- There are 9 divisions of the Department of Economic Affairs (DEA), which are as follows : (i) Finance Division, (ii) Budget Division including Fiscal Responsibility and Budget Management (FRBM), (iii) Capital Market, (iv) Bilateral Co-operation and Administration, (v) Multilateral Institutions, (vi) Multilateral Relations, and Administration, (vii) Controller of Aid, Accounts and Audit, (viii) Economic Division and (ix) Directorate of Currency.
- **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.**

Annual Budget

Annual Financial Statement

- Under **Article 112** of the Constitution, a statement of estimated receipts and expenditure of the Government of India has to be laid before Parliament in respect of every financial year which runs from **1st April to 31st March**. This statement titled "Annual Financial Statement" is the main Budget document. The Annual Financial Statement shows the receipts and payments of Government under the three parts in which Government accounts are kept; (i) **Consolidated Fund**, (ii) **Contingency Fund** and (iii) **Public Account.**

Finance Bill

- At the time of presentation of the Annual Financial Statement before Parliament, a Finance Bill is also presented in fulfilment of the requirement of Article 110 (1) (a) of the Constitution, detailing the imposition, abolition, remission, alteration or regulation of taxes proposed in the Budget. A Finance Bill is a Money Bill as defined in **Article 110** of the Constitution.

Vote-on-Account

- The whole process beginning with the presentation of the Budget and ending with discussions and voting on the Demands for Grants requires sufficiently long tim.e The Lok Sabha is, therefore, empowered by the Constitution to make any grant in advance in respect of the estimated expenditure for a part of the financial year pending completion of procedure for the voting of the Demands. The Purpose of the 'Vote on Account' is to keep Government functioning, pending voting of 'final supply'. The Vote on Account is obtained from Parliament through an Appropriation (Vote on Account) Bill.

Sources of Revenue

- The main sources of Union tax revenue are Customs duties, Union excise duties, Service tax, Corporate and income taxes. Non-tax revenues largely comprise interest receipts, loan repayments, dividends and profits.

Transfer of Resources

- In the revised estimates (RE) of 2011-12, the devolution of tax receipt from the union government to the states as their share of taxes and duties was Rs. 255414 crore. In BE (Budget Estimates) 2012-13, this amount has been increased from Rs. 189619 crore in RE 2011-12 to Rs. 222887 crore in BE 2012-13. In addition to above, resources are also transferred by Union Government directly to the state level implementing agencies under various schemes and programmes through budgetary support.

Public Debt

- The total net liabilities of the Government of India in BE 2011-12, is estimated at 43,52,389 crore as against Revised Estimates (RE) 39,30,805 crore at the end of 2010-2011.

New Initiatives in Fiscal Management

- To check the potentially damaging impact the lack of fiscal discipline 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 2008-09. As per the FRBM Rules, a minimum annual reduction in the revenue deficit of 0.5 per cent of GDP is targeted.** The process of fiscal consolidation during the FRBM Act regime has created necessary fiscal space to undertake much needed social sector expenditure and provide for higher infrastructure outlays.

The Budget for 2012-13 estimates the fiscal deficit for 2012-13 at 5.1 per cent of GDP. The Medium Term Fiscal Policy Statement 2012-13 has provided the roadmap for renewed fiscal consolidation with fiscal deficit declining to 4.5 per cent of GDP in 2013-14 and further to 3.9 per cent of GEP in 2101- -15 The deficit targets envisaged in the Budget 2013-13 are as follows:

FISCAL INDICATORS-ROLLING TARGETS AS PERCENT OF GDP

(at current marked prices)

S.No	Item	Revised Estimates 2011-12	Budget Estimates 2012-13	Target for 2013-14	2014-15
1.	Revenue Deficit	4.4	3.4	2.8	2.0
2.	Fiscal Deficit	5.9	5.1	4.5	3.9
3.	Gross Tax Revenue	10.1	10.6	11.1	11.7
4.	Total outstanding liabilities at the end of the year	45.7	45.5	44.0	41.9

Source: Union documents, 2012-13

Fiscal Policy for 2012-2013

- The fiscal policy of 2012-13 has been calibrated with two fold objectives-first, to aid economy in growth revival; and second, to bring down the deficit from 2011-12 level so as to leave space for private sector credit as the investment cycle picks up. Being the first year of the 12th Five Year Plan, ambitious outlay which is 22.1 percent high than RE 2011-12 has been provided. Even with higher increase in plan allocation, fiscal deficit has been reduced from. 5.9 percent of GDP in RE 2011-12 to

5.1 percent in BE 2012-13. With policy measures, it is estimated that non-plan expenditure could be controlled with a growth of 8.7 percent in BE 2012-13 over RE 2011-12. This would result in overall expenditure increase of 13.1 percent in BE 2012-13 over RE 2011-12. As percentage of GDP, total expenditure is estimated to marginally reduced to 14.7 percent in BE 2012-13 from 14.8 percent in RE 2011-12 Thus most of the correction in fiscal deficit has been targeted though remove augmentation.

Budgetary Development 2012-13

- The first year of the Twelfth Five Year Plan aims at "faster, sustainable and more inclusive growth. "The Plan has been launched with the Budget proposals for 2012-13. In keeping with the stated priorities, the Finance Minister identified five objectives to address effectively in the current fiscal year. These are:
- Focus on domestic demand driven growth recovery;
- Create conditions for rapid revival of high growth in private investment;
- Address salary bottlenecks in agriculture, energy and transport sectors, particularly in coal, power national highways, railways and civil aviation.
- Intervene decisively to address the problem of malnutrition especially in the 200 high burden districts, and
- Expedite coordinated implementation of decisions being taken to improve delivery systems, governance and transparency; and address the problem of black money and corruption in public life.
- Hike in gross budgetary support (GBS) for the plan from Rs. 441547 crore in 2011-12 (BE) to Rs. 521025 crore in 2012-13 (BE), an increase of about 18 per cent.
- The education and health sectirs were allocated substantial funds. In 2012-13 the budget allocation for education was enhanced by 17 per cent to Rs. 74056 crore while for the Health and Family Welfare it was enhanced by 13 per cent to Rs. 34488 crore.

Capital Market

- The market regulator, the Securities and Exchange Board of India (SEBI) became a Statutory body in **1992**. Through an amendment in 1999, SEBI was empowered to regulate collective investment schemes and plantation schemes. Till 2001, India was the only sophisticated market having account period settlement alongside the derivatives products. From the middle of 2001, uniform rolling settlement and same settlement cycles were prescribed creating a true spot market.
- RBI introduced Real Time Gross Settlement system (RTGS) in 2004 on an experimental basis. RTGS will allow real delivery v/s payment which is the international norm recognized by BIS and International Organisation of Securities Commissions (IOSCO).

Policy Initiatives and Development in the Capital Markets

The major policy initiatives related to the primary market during 2011-12 are under:—

- Requirements in respect of minimum public shareholding
- To comply with the amended rule 19(2)(b) of Securities Contracts (Regulation) Rules, 1957, which required the listed companies to achieve and maintain minimum public shareholding at 25 per cent (19 per cent for public sector companies), 2 additional methods viz. Institution Placement Programme (IPP) and Offer for Sale of Shares (OFS) through the stock exchange mechanism were introduced. It was also decided to extend the OFS through the stock exchange mechanism to top 100 companies based on average market capitalization for last completed quarter.

Mutual Funds

- The year-2011-12 witnessed manifold regulatory approaches toward the development and growth of mutual funds industry in India. The developmental goals were addressed by provision for infrastructure debt funds, bringing depth in terms of allowing new class of investors i.e Qualified Foreign Investors (QFIs) and new investment avenues for fund managers by enabling repo transactions in corporate debt securities.

Encouragement of Retail Investors Participation

- Various initiatives for encouraging retail investor participation in the capital market have been taken which inter-alia include simplifying the process of issuing Initial Public Officers (IPOs) lowering theri costs and helping companies reach more retail investors in small towns. To achieve this, in addition to the existing IPO process. The Finance Minister in his budget speech 2012-13 made it mandatory for companies to issue of Rs. 10 crore and above in electronic form through nationwide broker network of stock exchanges.

Foreign Investment in Stock Exchanges

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

External Markets

External Commercial Borrowings (ECB) Policy

- The External Commercial Borrowing (ECB) policy is regularly reviewed bythe Government in consultation with Reserve Bank of India (RBI) to reflect the evolving macroeconomic situation, domestic market conditions, sectorial requirements, the external conditions and India's experience in dealing with them. Currently, Indian companies are allowed to access funds from abroad in the following methods: i. External Commercial Borrowings, ii. Foreign Currency convertible Bonds, iii. Preference Shares, iv. Foreign Currency Exchange Bond.

A new Scheme under ECB

- On 25th June, 2012, it was decided to add a new scheme for ECB boorrowing. Indian companies in the manufacturing and infrastructure sector can now avail of ECBs for repayment of Rupee loan(s) availed of from the domestic banking system and/ or for fresh Rupee capital expenditure, under the approval route upto a ceiling of USD 10 billion. The ECBs will be allowed to companies based on the foreign exchange earnings and its ability to service the ECB.

India's Sovereign Credit Rating

Presently, India's sovereign debt is rated by six international credit rating agencies namely, Standard and Poor's (S&P), Moody's Investor Services, (FITCH, Dominion Bond Rating Service (DBRS), Japanese Credit Rating Agency (JCRA) and Rating and Investment Information Inc., Tokyo (R&I). Information flow to these credit rating agencies has been streamlined and the Interact on process has been made more structured.

- The current ratings by these agencies (as on 16 July 2012) are given below:

Rating Agency	Date of Affirmation of ratings	Foreign Currency		Local Currency	
		Ratings	Outlook	Ratings	Outlook
Moody's	20.12.2011	Baa3	Stable	Baa3 (upgraded from Bal)	Stable
Fitch	15.06.2012	BBB-(LT) F3 (ST)	Negative (changed from stable)	BBB-	Stable
S&P	25.04.2012	BBB- (LT)	Negative (changed F3 (ST)	No ratings were given for local currency from stable)	
JCRA	09.12.2011	BBB+	Stable	No ratings were given for local currency	
DBRS	23.06.2011	BBB	Stable	BBB (Low)	Stable (changed

		(Low)	(changed)	from-ve)
			(LT)	from-ve)
R&I	14.06.2011	BBB+ (LT)	Stable a-2 (ST)	No ratings were given for local currency

LT-Long Term, ST-Short Term

Financial Stability and Development Council (FSDC)

- FM had announced in the Budget Speech 2010-11, the creation of a Financial Stability and Development Council (FSDC) to strengthen and institutionalize the mechanism for maintaining financial stability and monitor macro prudential supervision of the economy including functioning of large financial conglomerates and address inter-regulatory coordination issues, without prejudice to the autonomy of regulators. DEA is working on implementing the budget announcement.

The Chairman of the Council is the Finance Minister of India and its members include the heads of the financial sector regulatory authorities; Finance Secretary and / or Secretary, Department of Economic Advisor. A Sub-Committee of FSDC has also been set up under the chairmanship of Governor, RBI.

Financial Sector Legislative Reforms Commission (FSLRC)

- In the budget (2010-11) speech the creation of a Financial Sector Legislative Reforms Commission (FSLRC) was announced. It was highlighted that most of our legislations governing the financial sector are very old. Large number of amendments to these Acts made at different points of time has also increased ambiguilty and complexity. The FSLRC has been entrusted with the task of rewriting and cleaning up the financial sector laws to bring them in line with the requirement of the sector.

The Commission is chared by justice B.N. Srikrishna, former Judge of the Supreme Court of India and has members having expertise in the fields of finance, economics, law and other relevant fields. The Commission has its headquarters at Delhi and will submit its Report to the Finance Minister within 24 months of the date of notification.

Financial Action Task Force (FATF)

- The Financial Action Task Force (FATF) is an inter-governmental policy making body, that has a ministerial mandate to establish international standards for combating money laundering and terrorist financing. India joined the Financial Action Task Force (FATF) as its 34th member in June, 2010. At present, FATF has 36 members comprising of 34 countries and two organizations namely, the European Union and the Gulf Cooperation Council.
- India participated in the Financial Action Task Force (FATF) plenary and working group meetings held in Mexico City, Mexico from 20-24 June 2011.

EURASIAN Group: In December 2010, India became 9th member of the Eurasian Group, which is a Financial Action Task Force (FATF) styled regional body, responsible for enforcing global standards on AML and CFT. The other members and Russia, China, Turkmenistan, Serbia, Tajikistan, Uzbekistan, Belarus and Kazakstan. The group also has 16 nations and 15 organisations as observer.

Financial Stability Board (FSB)

- The Financial Stability Forum (FSF) was established by the G7 Finance Ministers and Central Bank Governors in 1999 to promote international financial stability through enhanced information exchanged and international cooperation in financial market supervision and surveillance. It decided at its plenary meeting in London on 11-12 March, 2009 to broaden its membership and to invite as new members the G20 countries that were not initially in the FSF.

Bilateral Co-operation with Countries / Organisations

1. India-UK Development Cooperation

- The Government of UK has been providing bilateral assistance to India since 1958. UK is the largest provider of grant assistance to India. Development assistance from UK is largely administered by its Department for International Development (DFID).

- DFID has been providing bilateral development assistance for implemen-ting Central and State Sector projects. DFID also provides assistance to Multilateral Institutions, namely, World Bank, Asian Development Bank (ADB), United Nations Children's Fund (UNICEF), World Health Organisation (WHO) for implementing programmes in India. Besides, DFID through its civil society programmes, viz. Poorest Areas Civil Society Programmes (PACS) and International Non-Government Organisation Partnership Agreements Programme (IPAP) supports Indian NGOs.
- DFID focuses its development assistance in the area of education, health & HIV / AIDS, urban-slum improvement and rural livelihoods with the aim to achieve the target of Millennium Development Goals (MDGs). Apart from supporting national programmes like Sarva Shiksha Abhiyan (SSA), Reproductive & Child Health (RCH), National AIDS Control Programme (NACP), DFID supports three focal States, i.e., Bihar, Orissa and Madhya Pradesh in the identified priority areas.

2. Indo-Italy Bilateral Cooperation

- Italy has been providing concessional assistance to Indian sicne 1981. Prior to 1981, Italy was providing suppliers' credit to importers directly, Bilateral agreement on Technical Cooperation concluded in February, 1981 whereby Italy agreed to provide experts' services and related equipment on grant basis for specific projects.
- Government of Italy is providing an interest free loan amounting to Euro 2,58,22,84,495 for Water Supply and Solid Waste Management Projects in 16 selected towns of West Bengal, with repayment period of 39 years, including a grace period of 19 years. The projects was signed on 10th January, 2006. A loan amount of Rs. 1857 crore has been disbursed till date.

3. Indo-Norway Bilateral Cooperation

- The Norwegian Bilateral Development Assistance Programme in India began in 1952 with traditional fisheries projects in Kerala by way of technical assistance and financial support. Since 1970, Norwegian assistance has been received as grants for technical cooperation and local cost projects, mainly in social and environment sectors.
- Norway, being a non G-8 and non-EU country, ODA from Norway is not acceptable in accordance with the existing policy in Bilateral Development Cooperation.
- The First Annual Bilateral Meeting between Senior Officers of the ministries of Finance of India and Norway as held on 22-23 May, 2009 to explore bilateral cooperation between the two nations. The meeting was centered around the international economic outlook, including the financial crisis; Macro-economic and monetary policies in India; Policies and prospects in Norway; Renewal of the Bilateral tax treaty; The Norwegian pension Fund-Global and investments in Asia and India; Climate Policies, including Norwegian Purchases of CDM Projects in India. The 2nd annual bilateral meeting between Senior Officers of the ministries of Finance of India and Norway was held on 1st October, 2010 in North Block, New Delhi.
- The meeting was centred around the General update on economic developments, including the handling of issues emerging from the financial crisis; Norwegian Government Pension Fund-Global; Tax Havens and illegal financial flows; G20 and IMF; Climate change, green economic growth and CDM and bilateral double taxation agreement. The 3rd Annual Bilateral Meeting between Senior Officers of the Ministers of Finance of India and Norway was held on **9-10th June, 2011.**

4. Indo-Austria Bilateral Cooperation

- India and Austria enjoy a close and friendly economic relationship. Presently, there is no activity under bilateral development cooperation programme between India and Australia. As per the existing guidelines, Australia being EU & non-G8 country, need to commit a minimum annual development assistance of US$ 25 million to India

Austria has not responded to the existing policy on the Bilateral Development Cooperation.

- Subsequent to the meeting between Mr. Josef Proll, Federal Minister of Finance, Austria and Hon'ble FM on 18th February, 2010. Austria desired to enter into negotiations for a possible future financial cooperation with India through Austrian Soft Loan Scheme for financing of commercially non-viable projects / sectors, e.g., infrastructure, automotive industries, hydropower, clean energy and energy efficiency / transpiration. This is under consideration.

5. European Union (EU) Development Cooperation

- The European Union (EU) provides assistance through Development Cooperation in form of grants. The priority areas include environment, public health and education. EU implements development cooperation progra-mmes through Country Strategy Paper (CSP). The CSP is based on EU objectives, on the policy agenda of the partner country and on an analysis of the country/ region situation. **The current CSP for the 2007-2013 covers Multia-nnual Indicative Progra-mme-II (MIP-II) for the period 2011-2013.**
- An Memorandum of Understanding (MoU) for MIP-I was signed between India and EU on November 30, 2007 during the 8th India-EU Summit held in New Delhi for an amount of Euro 260 million, while MoU for MIP-II was signed on February 22, 2011 at Net Delhi for an amount of Euro 210 million. Thus for CSP 2007-13, the total amount of EC grants of Euro 470 million. The sector-wise allocation of funds for CSP 2007-13 is as given below.

(Amount in Euro)

S. No.	Sectors	MIP-I (2007-10)	MIP-II (2011-13)
1.	Health	110 million	50 million
2.	Education	70 million	100-130 million
3.	Implementation of Joint Action Plan	80 million	30-60 million
	Total	**260 million**	**210 million**

- Department of Commerce is the total ministry for implementation of Joint Action Plan (JAP). JAP provides the necessary framework for deeper cooperation and engagement through adoption of specific measures in various sectors, viz., Industrial Policy, Science & Technology, Finance & Monetary Affairs, Environment, Energy, Information & Communication Technologies, Transport, Shipping, Space Technology, Pharmaceuticals & Biotechnology, Agriculture, Customs, Employment and Social Policy, Business Cooperation and Development Cooperation.
- **The major programmes of Government of India which receive EU aid along with other development partners are Sarv Shiksha Abhiyan (SSA) and National Rural Health Mission (NRHM)/ Reproductive Child Health (RCH).**
- India-EU Sub Commission on Development Cooperation is a forum at which bilateral issues relating to development cooperation with EU are discussed. The last meeting of India-EU Sub Commission on Development Cooperation was held at New Delhi on May 4, 2011. The annual meeting is held alternatively between Delhi and Brussels. The Sub Commission of Development Cooperation reports to India-EU Joint Commission.

6. Indo-German Development Cooperation

- The Federal Republic of Germany (FRC) and been providing both financial and technical assistance to Indian since 1958. The German Federal Ministry for Economic Cooperation & Development (MBZ) provides funds for financial and technical Cooperation, while the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) provides funds for Technical Cooperation. Financial Assistance is provided in the form of soft loan, reduced interest loan as well as grants routed through KfW, the German Government's Development Bank. The technical assistance is provided in the form of grant in the form of experts, equipments, consultancy etc. through the GIZ (earlier GTZ) – a fully-owned corporation of German Government.

- The "Strategic Framework for Indo German Bilateral Development Cooperation" acts as a guiding framework for bilateral development partnership. The objective is to focus on making possible impact on national development processes and poverty reduction and supplementing efforts to solve global structural problems like environmental degradation and climate change. In alignment with our Plan priorities and development agenda, priority areas to be focused under Indo German bilateral development cooperation are:

(i) Energy, including energy efficiency, renewable energy, sector reforms.

(ii) Environment, including urban and industrial environment protection, natural resources

(iii) Sustainable Economic Development, including rural financing, social security systems, SME development and financing.

  - Main projects being funded under German assistance include programmes for promotion of energy efficiency, support to SME sector, promotion of new and renewable energy sources, financial assistance to NABARD/ SIDBI/REC/IREDA, natural resource management, climate change adoption etc. For the year 2010, the total commitment from Germany, under bilateral development cooperation, amounted to nearly Euro 500 million.

7. India-France Development Cooperation

- The Government of France has provided development assistance to India through French Embassy in New Delhi since 1968. Earlier, the French assistance was provided as Treasury Loan, which was 'tied' to supply of goods and services from France. In view of our policy on development co-operation of 2004 and also in terms of Paris Declaration on Aid Effectiveness (signed by both countries), 'tied' assistance form was discontinued.
- In 2006, Government of France proposed to provide united development assistance to India through the French agency for Development (AfD). In this regard an Inter-government Agreement was signed between the two Governments on January 25, 2008 during the State visit of French President Nicholas Sarkozy to India. In pursuance of the inter-governmental Agreement, and Memorandum of Understanding (MoU) was signed between the Development of Economic Affairs and AfD on September 29, 2008. The MoU covers the mutual understanding on priority areas, portfolio procedures, financial instruments, concessionality, etc.
- The AfD portfolio is focused at projects contribution to the sustainable management of global public goods, inter alia (i) energy efficiency, renewable energy and public transport (ii) the preservation of biodiversity, and (iii) limitation of the spread of emerging and contagious diseases.
- Main projects being funded under AfD assistance include programmes for promotion of biodiversity, urban development projects to improve water supply, transpiration, credit lines for environment programmes, financial assistance to organisation like IREDA, SIDBI etc. For the year 2010, the total commitment from AfD, under bilateral development cooperation, amounted to nearly Euro 125 million.

8. Indo-Japan Bilateral Relation

- India has received a commitment from Government of Japan for Official Development Assistance (ODA) for loan of Yen 203.566 billion (j 11197.81 crores approx) for FY 2010-11. With this, the cumulative ODA loan from Government of Japan has reached Yen 3320.369 billion of commitment basis, till 31st March, 2011. Notes were exchanged between Government of India and Government of Japan on February 17, 2011 for the FY 2010 JICA ODA loan package. The details of the projects are as under:

List of Projects Selected under FY 2010 Package

S.No.	Name of the project	Amt. inj JPY min.	Amt. in Rs. Crs.
1.	Dedicated Freight Corridor Project (Phase 2) Loan agreement signed on 26.7.2010)	1,616	85.95
2.	Himachal Pradesh Crop Diversification Promotion Project	5,001	266,00
3.	Tamil Nadu Biodiversity Conservation and Greening Project	8,829	469.61
4.	Yamuna Action Plan Project (III)	32,571	1732.45

The Exchange of Notes and the loan agreements for the projects at SI. No. 2 to 4 was signed on February 17, 2011. Government of Japan has pledged JICA loan for the following seven projects under the second batch of FY 2010 ODA package:

SI. No.	Name of the project	Amt. inj JPY min.	Amt. in Rs. Crs.
1.	Micro Small and Medium Enterprises Energy Saving Project (Phase 2)	30,000	1650,00
2.	New and Renewable Energy Development Project	30,000	1650,00
3.	Rajasthan Forestry and Biodiversity Project (Phase 2)	15,749	866,19
4.	Bihar National Highway Improvement Project	22,903	1259.66
5.	Bangalore Metro Rail Project (II)	19,832	1090.96
6.	Madhya Pradesh Transmission System Modernization	18,475	1016.12
7.	Andhra Pradesh High Voltage Distribution System Project	18,590	1022.45
	Total	1,55,549	8555.18

INTERNATIONAL MONETARY FUND

- The International Monetary Fund (IMF) was established along with the International Bank for Reconstruction and Development (also known as World Bank) at the Conference of **44 nations** held at **Bretton Woods**, New Hampshire, USA **in July 1944.** The Articles of Agreement of IMF came into force on December 27, 1945. IMF is the principal International Monetary Institution established to promote a cooperative and stable global monetary framework. At present. **187 nations** are members of the IMF. India is a founder member of the IMF.

Finance Minister is the ex-officio Governor on the Board of Governors of the IMF, which is the highest decisions-making body of the IMF. RBI Governor is the Alternate Governor at the IMF. India is represented at the IMF by an Executive Director, currently Dr. Arvind Virmani, who also represents three other countries as well, viz. Bangladesh, Sri Lanka and Bhutan.

India's Quota and Ranking

- India's current quota in the IMF is **SDR** (Speial Drawing Rights) 5,821.5 million in the total quota of SDR 237 billion, giving it a share holding to **2.44 per cent**. However, based on voting share, India (together with its constituency countries viz. **Bangladesh, Bhutan and Sri Lanka**) is ranked **22nd** in the list of 24 constituencies.

Borrowings by India

- Repayment of all the loans taken from International Monetary Fund has been completed on May 31, 2000. India is now a contributor to the IMF.

India's Contribution to Lending Resources of IMF

- From 2002 to 31st March 2011, India has made 19 purchase transactions of SDRs 1422.16 million and 22 purchase transactions of SDRs 795.98 million.

Financial Transactions Plan (FTP)

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

WORLD BANK

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 reduction, infrastructure, rural development, etc. Since the first Bank loan to India in 1948, India has borrowed around US $ 85.95 billion from the World Bank (upto March 2011).

TERMS AND CONDITIONS FOR WORLD BANK LENDING

IBRD Loans (Flexible Loan) - with Variable Spread option

IBRD IFL allows borrowers to customize the repayment terms (i.e. grace period, repayment period and amortization profile).

- **Repayment period :** Maximum final Maturity — 30 years including initial grace period of 5 years (maximum). Maximum average maturity - 18 years.
- **Interest :** LIBOR (6 month) + variable spread (Variable Spread over LIBOR is recalculated every January 1 and July 1 and also depends on the average maturity of the loan).
- **Commitment charges on undisbursed amount :** 0% p.a. (July 2010-June 2011).
- Front **End fee** : 0.25%.

IDA Credits

- **Repayment period :** 35 years including an initial grace period of 10 years.
- **Interest :** Nil
- **Commitment charges on undisbursed amount :** 0% p.a. for FY 10 (July 2010-June 2011).
- **Service Charges :** 0.75% p.a.

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (IFAD)

- International Fund for Agricultural Development (IFAD) was set up in 1977 as the 13th specialized agency of the United Nations. 165 countries are members of the IFAD and these are grouped into three lists: List - A: developed Countries, List - B: Oil Producing Countries and List - C: Developing Countries. India is in List – C. India is one of the original members of the IFAD. Since inception, India has contributed US $ 96.0 million towards the resources of IFAD. India contributed an amount of US$ 30.0 million to the 9th Replenishment of the IFAD's resources during 2012-14.
- Upto 31st May, 2012 IFAD has assited in 25 projects in the agriculture, rural development, tribal development, women's empowerment, and rural finance sector with the commitment of US$ 746.4 million (approx). Out of these, 15 projects have

already been closed. Presently, ten projects with a total assistance of US$ 362.75 million are under implementation.

Asian Development Bank

- The Asian Development Bank (ADB) an interational Partneship of 67 member countries was established in 1966 with its headquaters 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. India started borrowing from ADB's Ordinary Capital Resources (OCR) in 1986. During calendar Year 2011-12, ADB Board approved loans of US $ 2380.84 million for loans to India.
- The Bank's lending has been mainly in the **Energy. Transport and Communications. Finance. Industry, Social/Urban Infrastructure, Multi-Sector, Agriculture and Irrigation Sectors. India holds the position of Executive Director on the Board of Directors of the Bank - its Constituency comprises Afghanistan, Bangladesh, Bhutan, India, Lao PDR, Tajikistan and Turkmenistan.**

UNDP Programmes in India

- **The United Nations Development Programme (UNDP) is the largest channel for development cooperation in the UN System.** It has been India's partner in development since 1951. The overall mission of the UNDP is to assist the programme countries through capacity development in Sustainable Human Development (SHD) with priority on poverty alleviation, gender equity, women empowerment and environmental protection. The UNDP has field offices worldwide. The India Office is located in New Delhi. India's annual contribution to the UNDP has been to the extent of US$ 4.5 million, which is one of the largest from developing countries.

Country Cooperation Framework (CCF)

"The country-specific allocation of UNDP resources is made every five years under the Country Cooperation Framework (CCF) which usually synchronizes with India's five-year plans. The resource allocation criteria takes into account factors such as population and per capita Gross National Product (GNP).

Country Programme : 2008-12

The Country Programme Document (CPD), 2008-12, adopted in the UNDP Executive Board Meeting held in New York in September, 2007, is based on the United Nations Development Assistance Framework (UNDAF) goal on 'promoting social, economic and political inclusion for the most disadvantaged, especially women and girls'. The document has been formulated by the GOI in partnership with the UNDP country Office and is in harmony with the 11th Plan's thrust on inclusive growth. The document is effective from 1 January 2008 and will remain in force till 31 December 2012.

The programme will primarily concentrate on the UNDAF goals, namely, democratic governance, poverty reduction, HIV and development, disaster risk management and energy and environment. Further, it will focus on seven states that are economically laggard : Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh.

GOI-UNDP Country Programme Document (2013-2017)

The new Country Programme Document (2013-2017) formulated by the Government in partnership with the UNDP Country Office, flows out of India UN Development Assistance Framework 2013-2017 (UNDAF) which encapsulates the entire UN System's Development interaction with Government of India for the period. The new Country Programme (CP) would concentrate on the four UNDAF outcomes namely Inclusive growth, Governance, Sustainable Development and Gender Equality.

The new CP will focus on nine states with the highest level of deprivations and concentration of poor people states namely Odisha, Bihar, Chhattishgarh, Madhya Pradesh, Jharkhand, Uttar Pradesh, Rajasthan, Maharashtra and Assam. The new Country Programme projects UNDP core-resource contribution of US$ 65.5 m. Non-core resources is projected at US $ 195.5 million. CPD 2013-17 will be discussed in the Annual Session of the UNDP Executive Board scheduled to be held at Geneva from 25-29 June, 2012.

VIABILITY GAP FUNDING SCHEME

- Infrastructure projects are often not commercially viable on account of having substantial sunk investment and low returns. However, they continue to be economically essential. Accordingly, the Viability Gap Funding Scheme has been formulated which provides financial support in the form of grants, one time or deferred, to infrastructure projects undertaken through public private partnerships with a view to make them commercially viable. The Scheme provides total Viability Gap Funding up to twenty per cent of the total project cost.
- Viability Gap Funding under the Scheme is normally in the form of a capital grant at the stage of project construction. This scheme will apply only if the contract concession is awarded in favour of a private sector company in which 51 per cent or more of the subscribed and paid up equity is owned and controlled by it private entity.

INDIA INFRASTRUCTURE PROJECT DEVELOPMENT FUND (IIPDF)

- The fund titled 'India Infrastructure Project Development Fund' (IIPDF) is, therefore, being set-up in Department of Economic Affairs with an initial budgetary outlay of 100 crore for supporting quality project development activities to enable Sponsoring Authority to source funding to cover a portion of the PPP transaction costs, thereby reducing the impact of costs related to procurement on their budgets.
- The IIPDF will be available to the Sponsoring Authorities for PPP projects for the purpose of meeting the project development costs which may include the expenses incurred by the Sponsoring Authority in respect of feasibility studies, environment impact studies, financial structuring, legal reviews and development of project documentation, including concession agreement, commercial assessment studies (including traffic studies, demand assessment, capacity to pay assessment) etc. required for achieving Technical Close of such projects, on individual or turnkey basis but would not include expenses incurred by the Sponsoring Authority on its own staff.
- **The IIPDF will contribute upto 75 per cent of the project development expenses to the Sponsoring Authority as an interest free loan. The balance 25 per cent will be co-funded by the Sponsoring Authority.**

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 parts of the country 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**.
- The largest bank **- Imperial Bank of India -** was nationalised in **1955** and renamed 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 of India 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.**

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 of India.** It plays an important role in maintaining and managing the country's foreign exchange reserves and ensures orderly conditions in the foreign exchange market.

Composition of Banking System

- The Indian banking system consists of commercial banks both in public and private sector, Regional Rural Banks (RRBs) and cooperative banks. As on June 30, 2009, Commercial Banking system in India consisted of **171** Scheduled Commercial Banks out of which **113** were in public sector, including **86 RRBs.** The remaining **27** banks, other than RRBs, in the public sector consist of **19** nationalized banks, **7** banks in SBI group and IDBI Bank Ltd. Public sector banks (excluding RRBs) accounted for about **76.6 per cent** of the deposits of all scheduled commercial banks.

Indian Banks' Operations Abroad

- **Twenty two Indian banks** (16 from public sector and 6 from private sector) operated a network of 232 offices. (148 branches 22 subsidiaries, 7 joint venture banks and 55 representative offices) abroad in 52 countries at end (June 2010).

Banking Ombudsman Scheme

- Banking Ombudsman Scheme is in operation since **1995**. The Scheme works under the control and supervision of Reserve Bank of India (RBI). Banking Ombudsman is an independent body with legal powers to settle disputes quickly and inexpensively. RBI has appointed **15** Banking Ombudsman all over the country. **The grounds of complaint broadly covered under Banking Ombudsman Scheme are:-**

1. Credit Card complaints;
2. Pension Complaints;
3. Complaints relating to failure in providing the promised facilities, including through the direct selling agents;
4. Complaints relating to nonadherence to fair practices code as adopted by individuals banks;
5. Non-payment or inordinate delay in the payment or collection of cheques, drafts, bills etc.;
6. Non-Payment or delay in payment of inward remittances.
7. Failure to issue or delay in issue of drafts, pay orders or bankers' cheques;
8. Non-adherence to prescribed working hours.
9. Complaints from Non-Resident Indians having accounts in India in relation to their remittances from abroad, deposits and other bank-related matters;
10. Levying of charges without adequate prior notice to the customer.
11. Non-observance of Reserve Bank guidelines on engagement of recovery agents by banks; and
12. Any other matter relating to the violation of the directives issued by the

Differential Rate of Interest Scheme (DRI)

- **Under the DRI Scheme, introduced in 1972, Public Sector Banks are required to fulfil the target of lending of at least one per cent of the advances as at the end of the previous year to the weakest of the weaker sections of the society at an interest rate of four per cent per annum.** The scheme covers poor borrowers having a family income of not more than 18,000 in rural areas and 24,000 in urban and semi-urban areas and not having more than 2.5 acres of un-irrigated or one acre of irrigated land. They are given credit support of Rs. 15,000 as term loan and working capital loan for productive ventures.

Swarnjayanti Gram Swarojgar 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 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 Tool kits to Rural Artisans (SITRA), Ganga Kalyan Yojana (GKY) and Million Wells Scheme (MWS).The scheme is funded on 75:25 basis by central and the respective States Government and is implemented by DRDAs through Panchayat Samitis. Financial year 2008-09 was the tenth year of implementation of the scheme. Total number of 13,72,238 swarozgaris have received bank credit amounting to 1,282.75 crore and Government Subsidy amounting to 416.69 crore under SGSY as at the end of March 2009.

Swarna Jayanti Shahari Rozgar Yojana (SJSRY)

- The SJSRY Scheme is in operation since **1.12.1997** in all urban and semi-urban towns of India. The programme is applicable to all the cities and towns on a whole town basis. The target population under SJSRY is the urban poor, those living below the poverty lines as defined by the Planning Commission from time to time. Under the scheme, women are to be assisted to the extent of not less than 30 per cent. Differently abled at 3 per cent and SC/STs at least to the extent of the proportion of their strength. **The scheme has five components as under:**
  - (i) Urban Self Employment Programme (USEP)
  - (ii) Urban Women Self-help Programme (UWSP)
  - (iii) Skill Training for Employment promotion amongst Urban Poor (STEP-UP)
  - (iv) Urban Wage Employment Programme (UWEP)
  - (v) Urban Community Development Network (UCDN)

Self Help Groups (SHGs)

- The SHG-Bank Linkage Programme was started in the year 1992 as a flagship programme by NABARD and ably supported by RBI through policy support. The programme envisages organization of the rural poor into Self-Help Groups (SHGs) building their capacities to manage their own finances and then negotiating bank credit on commercial terms.

Small Industries Development Bank of India (SIDBI)

- The Small Industries Development Bank of India (SIDBI) was established as the principal financial institution for promotion, financing and development of industries in the small scale sector. SIDBI started its operations from April 02, 1990 and is engaged in providing assistance to Micro, Small and Medium Enterprises (MSMEs) in the country.

HOUSING FINANCE

National Housing Bank (NHB)

- The National Housing Bank (NHB) started its operations from July, 1988. The authorized paid-up capital of NHB stood at 450 crore and the reserves were 1972 crore as on June 30, 2009. The Bank had made a profit of 236 crores in the year 2008-09 (July-June). The total loan sanctions were 15737.30 crores and the disbursements were 10899 crores. A special liquidity package of 4000 crores was provided to HFCs for financing housing loans to the customers.

Export-Import

Bank of India (EXIM Bank)

- Export-Import Bank of India (EXIM Bank) was established for financing, facilitating and promoting foreign trade in India. During the year 2009-10, EXIM Bank received share capital of 300 crore from Government of India. As on 31 March 2010 EXIM Bank's paid up capital was 1700 crore. During the year ended 31 March 2010, EXIM Bank sanctioned loans of 38,843 crore while disbursements amounted to 33,249 crore. Profit after tax of the EXIM Bank for the year 2009-10 amounted to 513 crore.

India Infrastructure Finance Company Ltd. (IIFCL)

- IIFCL, a wholly owned Government of India company, was set up on 5 January 2006 and commenced operations from April, 2006. The company provides long term debt to commercially viable infrastructure projects as per the Scheme for Financing Viable Infrastructure Projects through IIFCL (SIFTI).

National Bank for Agriculture and Rural Development (NABARD)

- National Bank for Agriculture and Rural Development (NABARD) came into existence on 12 July, 1982. NABARD 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.

Insurance

- Since opening up, the number of participants in the industry has gone up from six insurers (including Life Insurance Corporation of India, four public sector general insurers and General Insurance Corporation of India as the National Reinsurer) in the year 2000 to **47** insurers as on March 2010 operating in the life, non-life and reinsurance segments (including specialized insurers viz. Export Credit Guarantee Corporation and Agriculture Insurance Company of India Ltd. AICIL). **Three** of the general insurance companies, viz. **Star Health and Alliance Insurance Company; Apollo Munich Health Insurance Company; and Max BUPA Health Insurance Co. Ltd.** function as standalone health insurance companies. Of the **22** life insurance companies which have set up operations in the life segment post opening up of the sector, **20** are in joint venture with foreign partners. Of the **17** who have commenced operations in the non-life segment, **16** had been set up in collaboration with foreign partners. Thus, **36** companies in the private sector are operating in the country in collaboration with established foreign insurance companies from across the globe as on 31st March, 2010.

Life Insurance Corporation of India (LIC)

- The Life Insurance Corporation with its Central Office in Mumbai, 8 Zonal Offices at Mumbai, Kolkata, Delhi, Chennai, Hyderabad, Kanpur, Bhopal and Patna, 109 Divisional Offices including one Salary Savings Schemes (SSS) Division at Mumbai, 2048 Branch Offices and 1004 Satellite Offices as on 31 March 2010.
- At present LIC is operating internationally through Branch Offices in Fiji, Mauritius and UK and through Joint Venture Companies in Bahrain Nepal, Sri Lanka, Kenya and Saudi Arabia. Its Representative Office in Singapore was opened on 06.11.2008.

Rashtriya Swasthya Bima Yojana (RSBY)

- RSBY started rolling from 1 April 2008. Coverae extends to five members of the family which includes the head of household, spouse and up to three dependents. The sum insured under RSBY is Rs. 30,000 per family per annum.

Janashree Bima Yojana

- The Janashree Bima Yojana (JBY) was launched in **10 August 2000.** The Scheme has replaced Social Security Group Insurance Scheme **(SSGIS)** and Rural Group Life Insurance Scheme **(RGLIS).** 45 occupational groups have been covered under this schme.
- The premium for the scheme is Rs 200/- per member per annum, 50 per cent of which is met out of Social Security Fund.

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

Aam Admi Bima Yojana

- AAM ADMI BIMA YOJNA, a new Social Security Scheme for rural landless household was launched on **2nd October, 2007** by the then Union Finance Minister at Shimla. **The head of the family or one earning member in the family of rural landless household is covered under the Scheme.**
- **A free add-on benefit for the children of the members** of AAM ADMI BIMA YOJANA **is provided under the Scheme in the form of a scholarship at the rate of 100/- per month and is given to maximum two children studying between IX to XII Standard payable half yearly on 1st July and 1st January each year.**

General Insurance Corporation of India (GIC)

- The General Insurance Corporation of India (GIC) was approved as the **"Indian Reinsurer"** on **3rd November 2000.** As an the "Indian Reinsurer" GIC Re has been giving reinsurance support to non-life Insurance companies in India. It continues its role as a reinsurance facilitator by managing Marine

Hull Pool, Terrorism Pool and Indian Motor Third Party Insurance Pool on behalf of Indian Insurance industry. The Reinsurance programme of GIC Re aims at optimizing the retention within the country and developing adequate reinsurance capacity.

- The GIC Re continues to lead the reinsurance programme of the companies in Kenya, Malaysia, Mauritius, Middle-East, Africa and Sri Lanka. In the process, it has emerged as a preferred Reinsurer in the Afro-Asian region. GIC Re is expanding its global presence and now plans to enter the Latin American market having got the 'Eventual Reinsurer' status in Brazil. GIC Re has been selected as the Manager for Nat Cat Pool promoted by the Federation of Afro-Asian Insurers and Reinsurers (FAIR).
- The Corporation has its presence in foreign reinsurance business through its Branch offices in Dubai and Londan and a Representative Office in Moscow. A branch office is also being opened shortly in Kuala Lumpur, Malaysia. Apart from reinsurance business, GIC Re continues to participate in the share capital of Kenindia Assurance Company Ltd. Kenya; India International Insurance Pvt Ltd. Singapore; LIC (Mauritius) Offshore Ltd, Mauritius; Asian Reinsurance Corporation. Thailand; East Africa Reinsurance Company Ltd.; Kenya; and Agriculture Insurance Company of India Limited.

Public Sector General Insurers' Companies (GIPSA)

- After opening up of the insurance sector and 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.**, are functioning independently. The four Public Sector General Insurance Companies have a network of 101 Regional Offices, 1395 Divisional Offices, 2880 Branch Offices in India and 55 Overseas Offices.

Universal Health Insurance Scheme (UHIS)

- The four Public Sector General Insurance Companies have been implementing UHIS for improving the access of health care to poor families from the year **2003-04 onwards; The Scheme, applicable to BPL families, provides for reimbursement of medical expenses up to 30,000 towards hospitalisation floated amongst the entire family; death cover due to accident for 25,000/- to the earning head of the family and compensation due to loss of earning of the earning member or spouse @ 50/- per cent per day up to a maximum of 15 days of hospitalization.**

Agriculture Insurance Company of India Ltd (AICL)

- A separate organization for agriculture insurance viz. Agriculture Insurance Company of India Ltd. (AIL) was 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. National Agriculture Insurance Scheme (NAIS) which was being implemented by the General Insurance Corporation of India (GIC) was transferred to the AICIL, in addition to NAIS. AICIL is also implementing Weather Based Crop Insurance Scheme (WBCIS).

National Agricultural Insurance Scheme (NAIS)

- NAIS was implemented from Rabi 1999-2000 season replacing Comprehensive Crop Insurance Scheme (CCIS). The Scheme is being implemented by the Agriculture Insurance Company of India Ltd. on behalf of Ministry of Agriculture. The main objective of the Scheme is to protect the farmers against the losses suffered by them due to crop failure on account of natural calamities, such as drought, food, hailstorm, cyclone, fire, pest/ diseases, etc, so as to restore their credit worthiness for the ensuring seasons.
- At present **25 States and 2 Union Territories** are implementing the Scheme. Some of the states have

notified lower unit of insurance such as village. Till kharif 2009 season, 15.23 crore farmers were covered with area insurance of 23.63 crore hectares, sum insured of 174910 crore, compensating 4.28 crore farmers with claim amount of 18725.27 crore since the inception of the scheme.

Weather Based Crop Insurance Scheme (WBCIS)

- From the season **Kharif 2007-08,** AIC has started implementing WBCIS as a pilot risk mitigation scheme as an alternative to NAIS. WBCIS is a parametric insurance product designed to provide insurance protection to the cultivator against adverse weather incidence during the cultivation period, such as deficit and excess rainfall, frost, heat (temperature), relative humidity, wind speed etc. which are deemed to adversely impact the crop yield.

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.** Of the annual income of the Fund, **75 per cent** 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 the Fund 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, 2010 is 1814.45 crore.

Use of Disinvestment Proceeds

- From April 2009, the disinvestment proceeds are being used for funding the capital expenditure under the social sector schemes of the Government, namely:-
  (i) Mahatma Gandhi National Rural Employment Guarantee Scheme
  (ii) Indira Awas Yojana
  (iii) Rajiv Gandhi Gramin Vidyutikaran Yojana
  (iv) Jawaharlal Nehru National Urban Renewal Mission
  (v) Accelerated Irrigation Benefits Programme
  (vi) Accelerated Power Development Reform Programme

FINANCE COMMISSION DIVISION

Under **Article 280** of the constitution, a Finance Commission is to be constituted **every fifth year** or at such earlier time bt the President on specified aspects of Centre-State Fiscal relations. The award period of the 12th Finance Commission (FC-XII) ended on 31.03.2010 and the award period of the 13th Finance Commission (FC-XIII), **2010-15,** commenced on 01.04.2010. The FC-XIII was appointed by President on 13th November 2007 under the Chairmanship of **Dr. Vijay Kelkar.**

The Twelfth Finance Commission

Grants-in-aid: The 12th FC in its report for the period 2005-10 had recommended a total transfer of 7,55,752 crore (share in central taxes and duties of 6, 13, 112. Crore and grants-in-aid of 1,42,640 crore) to States. The grants-in-aid recommended by 12th FC under various sectors and amounts released are as under:

(in crore)

S.No.	Purpose of Grant	Allocations by 12th FC during 2005-10	Released (as on 31.03.2010)
1.	Local Bodies grants	25,000	23,759
2.	Centre's share in Calamity Relief	16,000	16,000
3.	Non-Plan revenue deficit grants	56,856	56,856

4.	Grant for education	10,172	8,701
5.	Grant for health	5,887	4,769
6.	Grant for maintenance of roads and bridges	15,000	13,569
7.	Grant for maintenance of public buildings	5,000	3,776
8.	Grant for maintenance of forest.	1,000	953
9.	Grant for heritage conservation,	625	570
10.	Grant for State-specific needs	7,100	6,153
	Total	1,42,640	1,35,106

Debt Consolidation and Relief Facility (2005-10)

- Debt Consolidation and Relief Facility (DCRF), formulated as per recommendations of Twelfth Finance Commission had two components - consolidation of central loans (from Ministry of Finance); and debt waiver. FC-XII had recommended that the Central loans to States contracted till March 31, 2004 and outstanding on March 31, 2005 (estimated by FC-XII at 128,795 crore) may be consolidated and rescheduled for a fresh term of 20 years (resulting in repayment in 20 equal installments), and an interest rate of 7.5 per cent per annum be charged on them. The year 2009-10 was the last year of the award period of the 12th Finance Commission. So far, 26 out of 28 States (except West Bengal and Sikkim) have enacted FRBM Acts. Central loans (from Ministry of Finance) of 26 States have been consolidated to the extent of Rs. 113601.14 crore.

The Thirteenth Finance Commission

Main recommendations of the FC-XIII relate to the sharing of net proceeds of Union taxes between Centre and States, grants-in-aid of revenue of States under **Article 275,** Goods and Services Tax (GST), financing of relief expenditure and roadmap for fiscal consolidation.

Salient recommendations of the Thirteenth Finance Commission (FC-XIII)

(i) **Sharing of Union Taxes:** The Commission has recommended that the share of States in the net proceeds of Union taxes may be fixed at **32 per cent.** It has also recommended on the inter-se distribution of the States' share amongst the States. The total transfers to the States on the revenue account be subjected to an indicative ceiling of 39.5 per cent of the gross revenues receipts of the Centre.

(ii) The grants-in-aid recommended by 13th FC under various sectors and amounts released are as under:

S. No.	**Purpose of Grant**	**(in crore) Allocations by 13th FC during 2010-15**
1.	Local Bodies grants	87,519
2.	Centre's share in Calamity Relief	26,373
3.	Non-Plan revenue deficit grants	51,800
4.	Grant for education	24,068
5.	Grant for health	5,000
6.	Grant for maintenance of roads and bridges	19,930
7.	Grant for maintenance of public buildings	5,000
8.	Grant for maintenance of forest.	15,000
9.	Grant for heritage conservation.	1,000
10.	Grant for State-specific needs	27,945

11.	Grant for Goods and Services Tax	50,000
12.	Grant for Environment Related works	15,000
13.	Grant for Debt relief to states	28,360
14.	Grants for Improving Outcomes	14,446

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.

Capital Restructuring and Disinvestment of PSUs: 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 its comments on the proposals for consideration of the Board as well as on proposals for restructuring received from administrative Ministries.

National Institute of Financial Management

- In 1994, the Government of India established the National Institute of Financial Management (NIFM) as an autonomous organization under the Ministry of Finance to train directly recruited probationers belonging to various group 'A' Accounting Services. The Union Finance Minister, the Minister of State in the Ministry of Finance, the Secretay to the Government of India, Department of Expenditure and the heads of various accounting services, are ex-officio members of the Registered Society for providing broad policy guidelines. NIFM also provides consultancy services to various departments and organizations of the Govt. of India, State Government, PSUs, Autonomous Body, Universities and foreign courtiers.

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 Central Board of Direct Taxes (CBDT) is the apex body entrusted with the responsibility of administering direct tax laws in India. Revenue collection from Direct Taxes has been growing consistently for the last five years. The Direct Tax collections as a percentage of GDP has grown from 2.68 per cent in 1998-99 to 6.27 per cent in 2008-09. As a result of improved tax administration and better tax compliance direct taxes collection is displaying positive trends.
- During the current year (2011-2012), up to November 2011 the Income Tax Department has collected Rs. 3,35,333 crore at a growth rate of 8.63% achieving 44.18% of the Budget Estimate of Rs. 5,32,651 crore for 2011-2012.

Indirect Taxes

- **Customs, Union Excise and Service Tax** duties are the major sources of indirect tax revenue. After two years of depressed revenue collection, the fiscal 2010-2011 has shown a robust growth of revenue from indirect taxes. The total revenue collection of Rs. 3,43,705 crore exceeded the Revised Estimates (RE) of Rs. 3,34,500 crore by almost 3%. In terms of Budget Estimates (BE) of Rs. 3,13,741 the growth nearly touched the double digit being 9.6%. The fiscal consolidation measures taken in 2010-2011 budget as well as an improvement in the overall economic performance especially in the manufacturing sector are the main factors for this turnaround in indirect revenue performance. The fiscal consolidation process has been taken forward in this year's budget.

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 92 A 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 taxed 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 31.3.2010 (i.e. before the date appointed for introduction of GST) has been finalized. The package of compensation to the States for revenue loss on this account has also been finalized. Accordingly, the process of phasing out of the CST has been started with reduction in CST from 4 per cent to 3 per cent w.e.f. 01.04.2007 and further from 3 per cent to 2 per cent w.e.f. 1st June, 2008. For the residual losses thereafter, the Central Government has further released Rs. 5979.65 crore to States till 31st December, 2009 as budgetary support component of compensation for the loss due to phasing out of CST in Financial Year 2009-10.

STATE VALUE ADDED TAX (VAT)

- Under Entry 54 of List II (State List) of the Seventh Schedule of the Constitution of India, 'tax on sale or purchase of goods within a State' is a State subject. Introduction of State VAT to replace the earlier Sales Tax systems of the States has been one of the important tax reform measure taken on indrect tax side. The decision to implement State VAT was taken in the meeting of the Empowered Committee held on 18.06.2004, where a broad consensus was arrived at amongst the States to introduce VAT w.e.f. 01.04.2005, Accordingly, VAT has been introduced by all the States/UTs, except for the UTs of Andaman and Nicobar Islands and Lakshadweep.
- A package for payment of compensation to States for any revenue loss on account of introduction of VAT has been implemented. The rate of revenue loss compensation under this was 100 per cent during 2005-06, 75 per cent during 2006-07 and 50 per cent during 2007-08. An amount of _ 2558.67 crore has already been released by Central Government to States till 31st December, 2009 in the Financial Year 2009-10.
- 50 per cent funding is being provided to the Empowered Committee of State Finance Ministers for Implementation of the TINXSYS Project for tracking of inter-State transaction.
- The project for upgradation of Centre for Taxation Studies, Kerala to a national level institute of Public Finance, named Gulati Institute of Finance and Taxation (GIFT), has been sanctioned. This involves commitment financial assistance of 23.63 crores out of the total project cost of 33.13 crore.

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 Government in the meeting of Standing Committee of State Secretaries on Stamps and Registration held on 11.05.2007 at NIPFP.

Goods and Services Tax (GST)

- Introduction of GST is the logical extension of reforms in Central and States' indirect taxation aimed at avoiding double taxation and tax-cascading and thereby ensuring level field and market competitiveness of our products in national and international markets. The process of introduction of GST has been commenced with the cooperation of the Empowered Committee of State Finance Ministers, whose Terms of Reference have been expanded to the original Resolution, to enable the EC "To work with the Central Government to prepare a roadmap for introducing Goods and Services Tax (GST) in the country with effect from April 1, 2010 and to deal with related matters."

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.

Directorate of Enforcement

- The Directorate of Enforcement is mainly concerned with the Enforcement of the provisions of the Foreign Exchange Management Act (FEMA), 1999, beside implementation of Prevention of Money Laundering Act (PMLA), 2002, w.e.f. 1.7.2005. The Directorate is also responsible for adjudication of the Foreign Exchange Regulation Act, 1973 (FERA) cases (repealed Act) and follow-up of prosecutions filed under the erstwhile FERA. Consequent to the amendment of PMLA, which has been notified on 1.6.2009, the work of the Directorate, with regard to implementation of PMLA has increased manifold.