



India's economy

Outlook and way forward

June 2016

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This report is largely based on the report published by KPMG in India on February 2016: 'India soars high'

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Message from KOTRA

Diplomatic relations between India and Korea can be traced back to December of 1973 when each country posted an ambassador in the other. On 10 January, 2010, the relationship was further upgraded when a Comprehensive Economic Partnership Agreement, or CEPA was signed. In 2014, the Korean president, her excellency Geun Hye Park came to India to attend the Bilateral Summit between Korea and India, further strengthening our cooperation ties.

The India-Korea bilateral relationship was upgraded to a 'Special Strategic Partnership' during Prime Minister Narendra Modi's visit to Korea in May 2015. Mr. Modi had discussions with Madam Park on a wide range of issues and resolved to add 'new substance, speed and content' covering defence, trade and investment, and regional cooperation, to take the bilateral ties to a qualitatively higher level.

The Ministry of Strategy and Finance and the Export-Import Bank of Korea decided to provide US \$10 billion for mutual cooperation in infrastructure, comprising Economic Development Cooperation Fund (US \$ 1 billion) and export credits (US \$ 9 billion) for priority sectors, including smart cities, railways, power generation and transmission, and other sectors to be agreed.

The enthusiasm and reforms of the present Indian government especially with respect to infrastructure, urban development and smart cities is really praiseworthy. This is also a sector in which Korean companies have innate competencies and abundant experience.

In May 1993, Hyundai Engineering and Construction was the first Korean infrastructure company to establish operations in India and they installed a USD62 million hydroelectric power plant in the country in 2004.

Since then, Samsung C&T has completed projects in the metro sector, Doosan Heavy Industries & Construction in the power plant sector, Samsung Engineering in the petrochemical plant sector, etc. All these are indicative of how Korean companies are actively collaborating with India.

The government bodies issuing these projects have expressed contentment with the Korean companies' ability to implement complex engineering projects, and the ability to complete projects on time even when there are difficulties involved.

Korean companies are typically 20 per cent or more competitive in terms of pricing as compared to companies from Germany, the U.S., or Japan, and possess the skill sets, quality, and durability ideals for the Indian market, making them the ideal partner for infrastructure and city planning development projects in India.

India is the world's fastest growing big economy and one of the booming markets in the world today. Investments from all across the globe are pouring into India and countries are competing with each other to gain a share of the Indian market. It is of utmost importance that Korean companies realise this fact in time and are not late in terms of entering India since the competition is likely to become much more intense.

Indian companies have core competencies in several areas and they are looking for suitable partners who will offer them the cutting edge technology it needs for twenty-first century manufacturing. Korean companies need skilled talent for engineering and continuous innovation and manpower to manufacture leading products. There is a synergy between India and Korea that should be enabled through a strategic partnership in areas of our competence.

Moreover, the presence of renowned Korean brands in India such as Hyundai, Samsung and LG have already created a positive perception of Korean products in the Indian market. In short any Korean company entering India can leverage the already established goodwill of 'Brand Korea'. Therefore this is the right time for Korean companies to engage with one of the most promising markets of the world today – India.

This report is being published by KOTRA and KPMG to celebrate Korea India partnership and in anticipation of a significant role to be played by Korean companies in the infrastructure development sector in India.



Dong Seok Choi

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About KOTRA

KOTRA, initially the Korea Trade Promotion Corporation, was established in 1962 as a national trade promotion organization. Since then, it has successfully facilitated Korea's rapid export-led economic development through various trade promotion activities such as overseas market surveys and business matchmaking.

In August 1995, cross-border investment promotion and support for technological and cooperation projects was added to KOTRA's mandate, and it was renamed the Korea Trade-Investment Promotion Agency (KOTRA). KOTRA currently operates Invest KOREA, the national investment promotion agency.

KOTRA is now well-equipped to pursue its twin mandates of trade and investment promotion to enhance national prosperity and competitiveness, with the ultimate goal of positioning Korea as the business and economic hub of Northeast Asia. With its long-term experience and expertise, KOTRA serves and assists all interested parties worldwide to do business with Korea.

In order to execute its mandates more efficiently, KOTRA has opened an extensive worldwide network of 125 overseas Korea Business Centers(KBC) in 85 countries.

KOTRA Academy was launched in 2003 as a professional learning center for international business. After Contact KOREA was launched with the aim of attracting global talent to Korea in 2009, KOTRA can now serve and meet well the needs of Korean businesses to train and find human resources in and out of Korea, which will eventually be able to become the global talent hub with help of KOTRA.

KOTRA has extended its business areas to explore new overseas opportunities for Korean companies, such as identifying resource development projects in unexplored resource-rich countries, and supporting the development of eco-friendly industries to realize low-carbon green growth and new growth engine industries, as well, including IT, BT, finance and culture.

At the current stage, we are facing a critical point at which we must take a leap forward to join the ranks of truly advanced nations. With a renewed commitment, KOTRA is moving ahead, well-equipped with the necessary knowledge and creativity as its disposal to do so. By refining its customer satisfaction management skills, KOTRA has become a global business platform providing substantial support to Korean companies competing on the global stage.

Message from KPMG

In the times of recessionary pressures and a weak global economy, India is a relatively bright spot with its growth story continuing on an upward path owing to prompt government action and strong domestic fundamentals. Powered by a population consisting of a sixth of humanity, with the intellect, energy and creativity of a young nation, India is poised to grow rapidly.

The growth trajectory of the Indian economy is strong, with the overall growth rate pegged as among the fastest of the major economies, supported by various initiatives of the central and state governments.

The state governments, in lockstep with the central government, have unveiled several reforms and changes that have made it comparatively easier to do business in India, than ever before. And this is not a one off process by the state governments. The process has been institutionalised by the Department of Industrial Policy and Promotion, Government of India, under the ranking mechanism on adoption of business reforms, supported by the World Bank and various industry associations. This mechanism has been widely acknowledged as a game changer in terms of transforming India from an ease of doing business perspective.

The performance of this USD2 trillion-economy is being keenly observed by the world. During FY2014-15, India's domestic consumption and investment contributed a growth of 57 per cent and 33.1 per cent, respectively, to the Gross Domestic Product (GDP). In itself, that played a significant role in keeping India's economic sentiments charged up. And now that the International Monetary Fund (IMF) has forecast India's economic growth to be 7.5 per cent for 2016, India is firmly on its way to catapult into a global growth engine. This growth rate also makes India one of the fastest growing large economies in the world.

The Foreign Direct Investments ('FDIs') in India are accelerating, demonstrating increased investor confidence in what India has to offer, while the government is working hard to significantly reduce the red tape.

In addition, the Government of India has launched various ambitious national programmes that present significant opportunities for investors to be part of one of the largest infrastructure programmes in the world. These programmes are expected to transform not only the cities and the country as a whole, but also the way business is done in India. Some of the infrastructure plans are transnational and can help India smoothly and rapidly integrate with the regional economies. Proactive policy reforms along with several campaigns and initiatives, such as Make in India, Digital India, Skill India, Start-up India and Swachh Bharat Abhiyan (Clean India Mission), are likely to transform the extent and the quality of rural and urban infrastructure.

These steps are expected to bring forth a number of investment opportunities. For example, the initial corpus of USD6.2 billion from the National Investment and Infrastructure Fund (NIIF), collated from FDI and private investments, is expected to bridge the investment gap in infrastructure.

On the India-South Korea economic relations front, there have been continuous efforts from both sides to strengthen bilateral economic ties and foster mutual trade. Post signing of India-Korea Comprehensive Economic Partnership Agreement in 2010, the bilateral trade and investment has increased substantially.

KOTRA, being the premier agency of Government of South Korea for the promotion of overseas trade and investment, has played an active role in promoting bilateral communications between corporates from both countries and thus fostering bilateral ties.

This report intends to provide insights into Indian economy's outlook and future prospects and determinant factors for business in India.



Nitin Atroley

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About KPMG

KPMG in India

KPMG in India, a professional services firm, is the Indian member firm affiliated with KPMG International and was established in September 1993. Our professionals leverage the global network of firms, providing detailed knowledge of local laws, regulations, markets and competition. KPMG has offices across India in Chandigarh, Gurgaon, Noida, Ahmedabad, Vadodara, Mumbai, Pune, Bengaluru, Kochi, Chennai, Hyderabad and Kolkata. KPMG in India offers services to national and international clients in India across sectors. We strive to provide rapid, performance-based, industry-focussed and technology-enabled services, which reflect a shared knowledge of global and local industries and our experience of the Indian business environment.

KPMG International

KPMG International is a global network of professional firms providing Audit, Tax and Advisory services. KPMG member firms operate in 155 countries and have more than 174,000 outstanding professionals working in member firms around the world. The KPMG Audit practice endeavours to provide robust and risk-based audit services that address member firms' clients' strategic priorities and business processes.

KPMG's Tax services are designed to reflect the unique needs and objectives of each client, whether firms are dealing with the tax aspects of a cross-border acquisition or developing and helping to implement a global transfer pricing strategy. In practical terms that means, KPMG firms work with their clients to assist them in achieving effective tax compliance and managing tax risks, while helping to control costs.

KPMG Advisory professionals provide advice and assistance to help enable companies, intermediaries and public sector bodies to mitigate risk, improve performance, and create value. KPMG firms provide a wide range of Risk Consulting, Management Consulting and Deal Advisory services that can help their clients respond to immediate needs as well as put in place the strategies for the longer term.

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Indian economy outlook





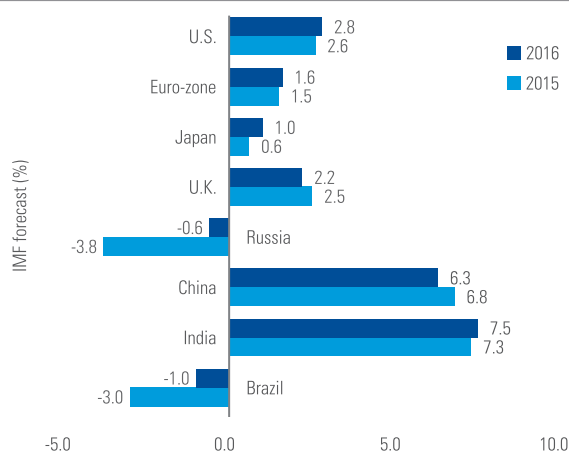
An overview

Stable macroeconomic conditions

In the Fiscal Year (FY)2014-15, India's GDP grew by 7.3 per cent following a 6.9 per cent growth rate in the previous year. With a growth of over 7 per cent in 1H FY2015-16, India is considered the world's fastest-growing large economy. The International Monetary Fund (IMF) predicted that India would retain the status of fastest growing economy until 2020.⁰¹ Domestic consumption and investment were major contributors to growth in FY2014-15, accounting for 57 per cent and 33.1 per cent of GDP, respectively. Both manufacturing and electricity outputs experienced strong growth (4.4 per cent and 4.6 per cent respectively) in 1H FY2015-16, boosting overall industry performance.

Following the downward trend in global commodity prices, the retail inflation averaged 4.5 per cent in 1H FY2015-16⁰³, and is expected to remain below the Reserve Bank of India (RBI) inflation target of 6 per cent by January 2016. This has allowed RBI to cut its policy rate by 125 basis points in 2015, which is expected to underpin the domestic demand.⁰⁴

India - world's fastest-growing large economy



Source: IMF World Economic Outlook, October 2015

Retail inflation is likely to remain below RBI's target of 6 per cent by January

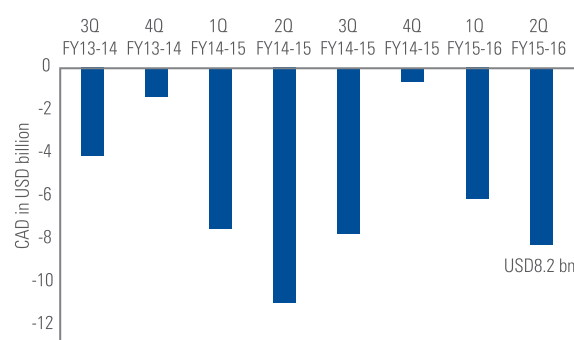


Source: Ministry of Statistics and Programme Implementation, 2015 and Reserve Bank of India, 2015

To scale up investments in infrastructure, the Indian government during the Union Budget FY2015-16 earmarked USD11 billion.⁰⁵ This increase in public spending is also likely to support economic growth. To ensure that increased infrastructure spending does not exert upside pressure on inflation, the government and the RBI have come to an agreement that the latter would target to maintain inflation in the range of 2 to 6 per cent from FY2016-17 onward⁰⁶. This arrangement is expected to keep inflation expectations anchored.

Benefitting from softer oil prices (the Brent crude has declined more than 55 per cent since June 2014)⁰⁷, India's current account deficit has continued to narrow, enabling the RBI to increase the foreign exchange reserves. This could safeguard the economy against potential disruptions in global financial markets caused by a change in monetary policy stance in advanced countries.

Narrowing CAD strengthens macroeconomic stability



Source: Reserve Bank of India, December 2015

India's strong economic fundamentals limit the rupee's depreciation against the dollar (per cent)

Currency	February 2014 to December 2015
Dollar index	24
Russian Rubble	102
Thai Baht	11
South African Rand	44
Brazilian Real	70
Indian Rupee	7

Source: Forex rates, www.investing.com, accessed 8 January 2016

01. International Monetary Fund's World Economic Outlook (October 2015).

02. Ministry of Statistics and Programme Implementation (May 2015)

03. Ministry of Programme Implementation (October 2015)

04. Ministry of Statistics and Programme Implementation (November 2015)

05. Union Budget 2015-16

06. Monetary Policy Framework Agreement, Press Information Bureau, 07 August 2015

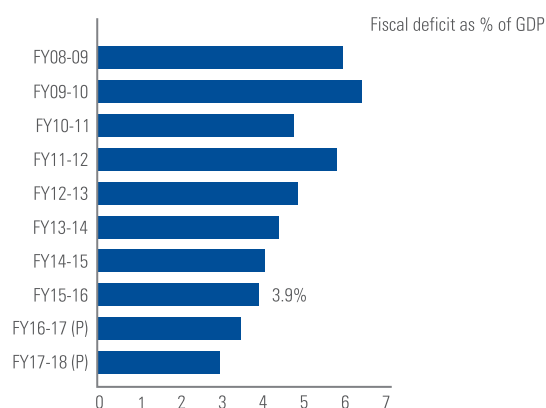
07. Federal Reserve Bank of St. Louis accessed 19 December 2015

Fiscal consolidation on track

The falling oil prices have been a major boost to India's public finance, by helping the government save about USD1.7 billion⁰⁸ in subsidy bills. It has also allowed the Indian government to increase revenue buoyancy by imposing excise duty on oil products. Going forward, strong economic growth prospects together with the implementation of the unified tax system would increase the fiscal headspace for infrastructure investment. This would be further strengthened by the measures to rationalise subsidy. For example, the direct benefit scheme for LPG subsidy, that transfers subsidies directly to beneficiaries through bank accounts, could help the government save about USD2.3 billion⁰⁹ every year. A similar approach is likely to be followed for disbursing food subsidy. As per the government estimates, as much as 40 per cent of food subsidies (approximately USD7.8 billion annually) could be saved through a direct benefit transfer system.⁰⁹

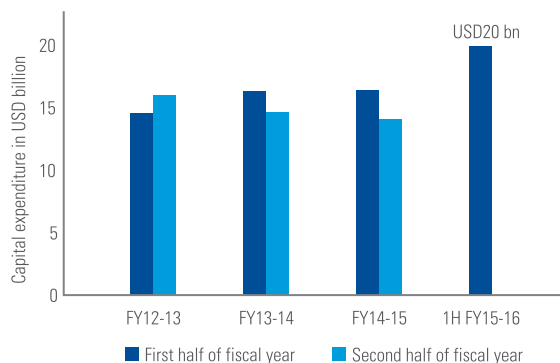
The savings from subsidies and higher tax revenues would enable the government to fund its capital expenditure plan while sticking to the fiscal discipline.

Fiscal consolidation path



Source: Reserve Bank of India and Controller General of Accounts, October 2015

Greater emphasis on capital expenditure

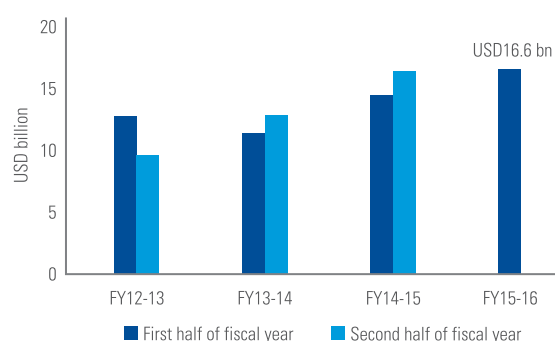


Source: Reserve Bank of India and Controller General of Accounts, October 2015

Foreign Direct Investment (FDI) policy

Government of India has introduced key reforms to the FDI policy, to help attract further investments. To achieve this goal, some measures such as the introduction of the composite cap that does away with the distinction between FDI and Foreign Portfolio Investment (FPI) and liberalising FDI norms in 15 major sectors (refer to chapter: Key policies of the Indian government and their impact on business) have been taken. FDI in India has started picking up, which stood at USD16.63 billion in 1H FY2015-16, about 13 per cent higher than 14.69 billion in 1H FY2014-15¹⁰.

Upward trend in FDI



Source: Department of Industrial Policy and Promotion, FDI Statistics, April 2000 to September 2015 (API1)

India witnessed strong merger and acquisition (M&A) activities during the January to November 2015 period, with 532 M&A transactions worth USD31.16 billion, following 525 M&A deals worth USD34.63 billion in the previous year.¹¹ The momentum of PE investment has continued, with deal activity increasing 74 per cent in volume terms and 42 per cent in value terms in January to November 2015. Maximum PE deals were noted in sectors such as information technology and information technology-enabled services (which includes e-commerce), banking and financial services and media and entertainment¹¹. With the government's reform agenda aimed at strengthening business as well as economic conditions, the domestic deals are expected to accelerate further; sectors related to e-commerce, internet and mobile technology would continue to remain attractive. As for the outbound flows, Indian firms have invested USD2.28 billion¹² overseas in October 2015, with pharmaceuticals, IT and telecom sectors accounting for a majority of that investment.

08. Weak crude oil may bring Rs 88,800-cr gains this year, Business Standard, 08 August 2015

09. Govt expects DBT to plug 35-40% leakage in PDS, Mint, 25 September 2015

10. Department of Industrial Policy and Promotion's statistics on FDI

11. Dealtracker, Grant Thornton, November 2015

12. Reserve Bank of India's database on Indian economy

Adoption of greater capital account convertibility

A greater capital account convertibility has its pros and cons. For instance, while it would bring in stable long-term investments, it would also lead to volatile short-term money. India, as an emerging economic power, would need to adopt greater capital account convertibility at some point in the future, as sticking to the capital control policy for a longer time would have its own consequence. Thus, RBI is making a nuanced and gradual progress toward greater capital account convertibility. The government's structural reforms could prepare the economy to withstand the effects associated with withdrawal of capital controls.

As part of capital account liberalisation initiatives, the central bank has eased the External Commercial Borrowing (ECB) framework, allowing the domestic firms to raise long-term foreign capital and increase the borrowing limit. The RBI has also extended the list of lenders from whom Indian firms could borrow. The list now includes sovereign wealth funds, pension funds and insurance companies. Also, in a bid to encourage rupee internationalisation, the central bank has allowed domestic companies to issue rupee-denominated bonds abroad.

Critical challenges

While the Indian economy is on a strong growth trajectory, there are some risks to the recovery. A few of such cases are discussed below:

1. Projects worth USD160 billion¹³ were stalled as of December 2015, due to delays in project approvals and raw material non-availability issues.
2. The delay in restarting stalled projects has strained infrastructure companies' ability to meet their debt obligations, leading to a surge in banks' gross non-performing assets (5.1 per cent as of September 2015). With banks making higher provisioning against bad loans, their profitability has come under pressure.
3. India confronts a situation wherein the utilisation rate of power generating firms continues to remain low despite a sharp increase in coal output. This is because the poor financial health of power distribution companies (DISCOMs), which have accumulated USD67 billion debt¹⁴, and impedes them from buying power, thereby reducing demand.
4. India's exports declined for the twelfth month in a row in November 2015.¹⁵ The exports need to remain stronger for India to grow at 8 to 10 per cent¹⁶. Thus, the continuous decline in exports remains a cause for concern.
5. The labour reform progress has been slow. Flexible labour reform is key to making India a global manufacturing hub.

6. Rupee depreciation could impact Indian firms with exposure to overseas debt by increasing their liabilities. As of September 2015, non-government sector held USD394 billion worth of external debt.¹⁷

To an extent, e-auction of coal blocks and fast tracking of clearances have resolved fuel supply issues. In order to encourage road developers to invest in fresh projects, the government eased exit clause for completed highway projects, and one-time financial assistance was given to developers facing temporary financial problems. Also, a new framework - Hybrid Annuity Model (HAM) - that reduces the upfront contribution from road developers was unveiled¹⁸. However, through these initiatives, the government could only make gradual headway on this issue, especially as addressing the cause for stalled projects, such as land acquisitions and environment clearances, requires consensus from various stakeholders.

The government along with the RBI has been taking initiatives to address the NPA problem. The government's recent reform package for DISCOMs, which involves transferring the latter's debt to state governments, is expected to reduce banks' stressed assets by 10 per cent¹⁹. The RBI on its part unveiled new norms for Strategic Debt Restructuring (SDR)²⁰, which allow lenders to convert debt into equity if the borrower fails to meet the milestones embedded in a restructuring plan. These measures would be complemented by the government's move towards creating an ecosystem that makes it easier for troubled businesses to exit while ensuring that banks can recover a significant part of their loans. The RBI expects that the NPA problem would cease to exist by March 2017²¹.

Weakness in external demand is blamed for India's subdued exports. As such, recent government measures, such as subsidised loans and extended duty incentives, could provide only a temporary relief to exporters. Nevertheless, weak exports are unlikely to derail India's above 7 per cent growth prospects, especially when the domestic demand is expected to remain robust.

The government has launched a system to rank states based on the 98-point action plan of business reforms, with an aim to promote competitive federalism. States have implemented key business reform measures in a bid to make it significantly easier to do business and hence attract investments.

The RBI is unlikely to allow excessive depreciation in rupee and has indicated that it will intervene in the market if needed. Domestic firms on their part increased their protection against currency volatility by increasing the hedging of their foreign currency loans.

In conclusion, India's macroeconomic conditions have relatively improved in the recent past. Challenges remain, however, the government is working towards enhancing the country's long-term growth potential.

13. No progress on stalled projects while new announcements plunge, Livemint, 5 January 2016

14. Cabinet to consider Rs4.3 trillion loan recast of power distribution companies, Mint, 05 October 2015

15. Exports fall for 12th straight month, down 24% in Nov, Business Standard, 16 December 2015

16. CEA Arvind Subramanian pegs growth at 8-10%, with exports rider, Economic Times, 27 July 2015

17. Ministry of Finance, External Debt Statistics (December 2015)

18. Govt's hybrid annuity model paves way for road projects, Business Standard, 09 July 2015

19. Banks to blame for Amtek Auto's bloated debt, Mint, 07 December 2015

20. Strategic Debt Restructuring Scheme, RBI, 08 June 2015

21. RBI, government steps to help banks end NPA woes by March '17: Raghuram Rajan, Economic Times, 01 December 2015

Indian government's key policies: Impact on business





An overview

India's macro-economic conditions saw an upswing in FY2014-15 and there have been early signs that investments are picking up, primarily due to a rise in public sector expenditure and an upturn in the capital replacement cycle.⁰¹

As the country paces itself for the next phase of growth in its domestic market, consequent increase in consumer confidence and greater stability in its macroeconomic fundamentals, the structural reforms and flagship initiatives introduced by the Indian government, in the recent past, have started gaining momentum. The reforms and initiatives are multi-pronged, cutting across sectors, with the prime objective of amplifying the collective growth impact.

This report focuses on the major flagship initiatives that hold the potential to have a transformational impact on the Indian economy and accelerate India's growth rate. In the report, the initiatives have been categorised, under the following broad focus areas:

Infrastructure investments

As per NITI Ayog's directional framework released in 2015, the government plans to focus on 5 major areas of infrastructure in order to augment overall infrastructure, attract investments and facilitate overall growth.⁰²

1. Railways
2. Roads
3. Sagarmala project (for ports and coastal development)
4. Inland waterways
5. Housing for All by 2022.

Make in India initiative

It has been launched with an aim to boost industrial growth and make the country a global manufacturing hub. The programme aims to enhance manufacturing through initiatives designed to facilitate investment, foster innovation, protect intellectual property and build best-in-class manufacturing infrastructure.

Urban development - transforming Indian cities

Smart Cities Mission

This mission is expected to improve the efficiency of cities and enable local area development, thereby driving economic growth and improving the quality of life. This urban transformation is expected to be driven by adopting technology-based interventions.

Atal Mission for Rejuvenation and Urban Transformation (AMRUT)⁰³

AMRUT envisages urban India's transformation, by aiming:

- To ensure that every household has access to a tap with assured supply of water and a sewerage connection;

- To increase the amenity value of cities by developing greenery and well-maintained open spaces (e.g., parks); and
- To reduce pollution by switching to public transport or constructing facilities for non-motorised transport (e.g., cycling).

Universal energy access and reviving power sector⁰⁴

Power for All programme

The programme aims at providing quality, reliable and affordable power supply 24x7 to all Indian citizens by March 2019.

Ujwal DISCOM Assurance Yojana (UDAY)

This scheme has been launched to provide a financial turnaround for the state-owned power distribution companies (DISCOMs), by helping overcome outstanding debt of USD64.8 billion as on March 2015.

Digital India initiative

This initiative aims to transform India into a digitally empowered society and knowledge economy. This umbrella programme lays emphasis on the national e-governance plan.

Financial and communications inclusivity

The JAM Number Trinity, or the Jan Dhan Yojana – Aadhar – Mobile Number Trinity, aims at enabling direct subsidy transfers in order to enable the government to provide targeted subsidies, reducing distortion and subsidy leakages while expanding financial inclusion.

Revitalising public sector banks

Indradhanush or the Rainbow initiative spells out a seven-point reform plan to strengthen governance in the public sector banks to address their concerns about rising non-performing assets (NPA).

Skill and entrepreneurship development

Skill India

Skill India seeks to provide the institutional capacity to train a minimum of 300 million skilled workforce by 2022.

Start-Up India Stand-Up India

This initiative aims at creating an optimal environment to enable both existing and prospective entrepreneurs to carry out business effectively and seamlessly.

The Start-Up India framework is expected to be launched in January 2016.⁰⁵

01. 'Inside India', Moody's Investors Service, 1 December 2015, https://www.moody.com/research/Moodys-Indian-investment-levels-showing-nascent-signs-of-recovery-PR_340076

02. NITI Ayog website, accessed on 3 December 2015

03. Atal Mission For Rejuvenation And Urban Transformation (AMRUT), <http://amrut.gov.in/>

04. Government of India, Ministry of Power, <http://powermin.nic.in/Power-All>

05. Govt. to launch Start-Up India's framework on Jan.16: PM Modi, Business Standard, 27 December 2015

Hygiene infrastructure

Swachh Bharat Abhiyan (Clean India Mission)⁰⁶

This mission aims at eliminating open defecation, eradicate manual scavenging, adopt modern and scientific municipal solid waste management, effect behavioural change for healthy sanitation practices, generate awareness about sanitation and its linkage with public health, augment capacity of Urban Local Bodies (ULBs) and to allow an open environment for private sector participation in capex (capital expenditure) and opex (operational expenditure).

National Mission for Clean Ganga (NMCG)

This mission is expected to ensure effective abatement of pollution and rejuvenation of the river Ganga by adopting a river basin approach to promote coordination within different sectors for comprehensive planning and management. Additionally, it aims at maintaining minimum ecological flows in the river to ensure better water quality and environmentally sustainable development along its entire course.

Ease of Doing Business (EoDB)

The initiative has been launched with an aim to create a conducive business environment by streamlining regulatory structures and to create an investor-friendly business climate by cutting through red tape.

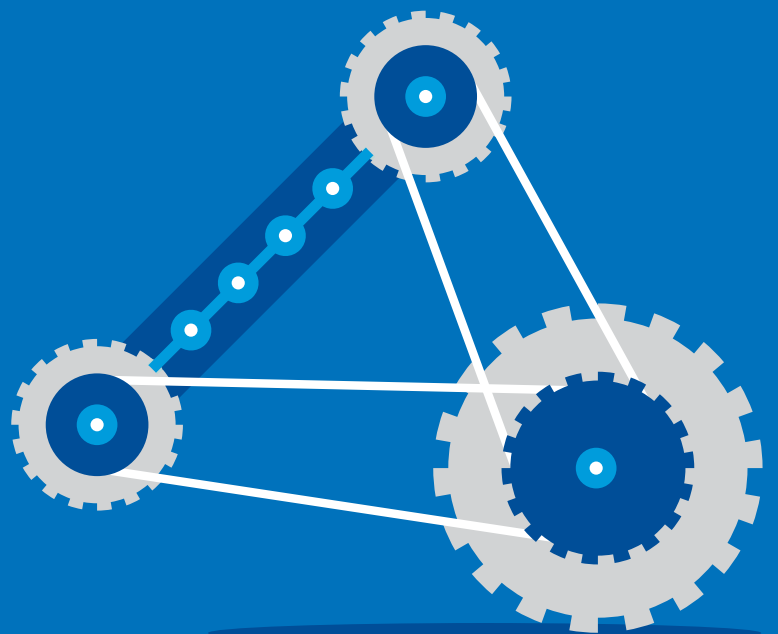


06. Swachh Bharat, Ministry of Urban Development, <https://swachhbharaturban.gov.in/ISNAHome.aspx>

Make in India - transforming India's manufacturing scenario

Objective(s)⁰¹

The initiative aims at enhancing manufacturing through investment, innovation, and by building best-in-class manufacturing infrastructure.



01. Make in India, <http://www.makeinindia.com/home>



Introduction

Accelerating growth of the manufacturing sector is key to stimulate higher economic growth of a nation. To this effect, the Make in India flagship initiative was launched in 2014 to give a comprehensive push to industrial development by introducing a business friendly regulatory environment, enhancing the ease of doing business and improving manufacturing infrastructure, among others.

The initiative is based on 4 fundamental principles, which are mentioned below:

New processes

The Government of India (GoI) recognised Ease of Doing Business (EoDB) is critical to attract investments into the country. Thus, it introduced new de-licensing and deregulation measures to significantly reduce complexity in the government procedures and help increase efficiency and transparency.⁰¹

New infrastructure

The manufacturing infrastructure and innovation capacity are expected to witness growth owing to the development of smart cities and industrial clusters across different regions identified as potential investment destinations.⁰¹

New sectors

The government has liberalised norms and opened up new sectors for foreign investments under the Make in India initiative. The 10 key sectors identified by the government to play a major role in manufacturing are⁰¹:

- Aerospace and defence
- Automobiles and automobile components
- Chemicals and petrochemicals
- Construction equipment, materials and technology
- Food processing
- Infrastructure development
- IT and electronics
- Industrial equipment and machinery
- Pharmaceuticals
- Textiles.

New mind-set

Aiming global recognition, the government tried to represent an attitudinal shift in its relation with investors through the Make in India initiative, which limits interventions in setting-up and operating manufacturing units and promotes governance.⁰¹



Status

Steps taken so far

Invest India - investor facilitation cell

- The government has set up an Invest India agency — a joint venture between the Federation of Indian Chambers of Commerce & Industry (FICCI), Department of Industrial Policy & Promotion (DIPP) and the state governments — to promote and facilitate investments.
- The agency established an Investor Facilitation Cell to guide, assist and handhold investors during the entire life cycle of the business.⁰²

Ease of Doing Business

- India improved its EoDB ranking to 130 in 2015 by constantly working on parameters that address investors' concerns on conducting business in India.

- The government has released a 98-point action plan for states and union territories, on which they were ranked on ease for investors to acquire land, get access to infrastructure related utilities such as electricity, get clearances and approvals from the government and pay taxes.

Liberalised FDI norms

The government, under its Make in India initiative, has eased FDI norms in key sectors which include defence, insurance, railways infrastructure, etc., resulting in a surge in proposals and investments that the country received in FY2015-16.

01. Make in India website, <http://www.makeinindia.com/article/-/v/make-in-india-we-1> accessed on 4 December 2015

02. 'e-Book of DIPP on Good governance 2014-15', DIPP, 15 June 2015

Modified Industrial Infrastructure Upgradation Scheme (MIUS)

- Under MIUS, 24 projects have been approved in principle, involving a central grant of about USD100 million. Out of the 24 projects, final approval was accorded to 11 projects in February 2014, and a grant of USD2.7 million was further released for 5 projects.
- So far, 5 projects have been completed in FY2014-15 as compared to 2 in FY2013-14.⁰³

Promoting merchant exports through incentives

To overcome challenges faced by exporters to ship products, the government has extended duty incentives on several products. About 110 new tariff lines or products have been introduced, including the textiles and electronics sectors, to the existing list of 2,228 products under the Merchandise Exports from India Scheme (MEIS). The duty benefits are a part of increased allocations, from USD2.8 billion to USD3.3 billion, for MEIS.^{04,05}

Protection of Intellectual Property Rights (IPR)

To modernise and strengthen Intellectual Property (IP) offices, the scheme aims at reducing transaction costs, improving transparency in the functioning of the IP offices and augmenting human resources to enable timely evaluation of applications.

Expected next steps

Net zero imports by 2020

The government aims at curtailing the net import-export balance for the electronics and IT sectors to zero by 2020. Proposals worth USD12.5 billion have been received for reviewed under the Modified Special Incentives Scheme (MSIS), launched by the government. According to the scheme, electronics manufacturers get a capital subsidy of 20 to 25 per cent from the government.⁰⁶

Start-up India mission

- The Start-up India mission to be run by DIPP, would promote bank financing for start-ups and offer them incentives. India also announced setting up of the Aspiration Fund and Atal Innovation Mission (AIM) to encourage start-ups.⁰⁷
- The government is expected to launch a slew of measures to enable and promote entrepreneurship and make India a leader in start-ups across the world.

Automotive Mission Plan

- The Automotive Mission Plan (AMP) 2016-26 was announced in September 2015 by the Society of Indian Automotive Manufacturers (SIAM) and GoI to make the country among the top 3 automotive industries in the world. The plan also envisages to grow the Indian automotive industry to USD260 to 300 billion by 2026.
- AMP aims to make the Indian automotive industry the engine of Make in India initiative.⁰⁸

Industry status for gems and jewellery sector proposed

- At present, India is a leader in global jewellery consumption with a share of 29 per cent.⁰⁹ The sector contributes 6 to 7 per cent to the Gross Domestic Product (GDP) and is the second highest contributor to the nation's commodity exports with a share of 13 per cent, after petroleum products.⁰⁹ During April to September 2015, the exports from gems and jewellery sector was USD19.2 billion.¹⁰
- India is the world's largest cutting and polishing centre for diamonds and has made technological advancements in diamond cutting. It is also one of the lowest-cost producers of polished gems and jewellery.¹¹

Micro Units Development and Refinance Agency Ltd (MUDRA)

The GoI launched MUDRA Yojana (plan) in April 2015 with a corpus of USD3.1 billion and a credit guarantee fund of approximately USD470 million. The objective is to provide finance and credit support to the Micro-Finance Institutions (MFI) and other agencies, which lend money to small businesses and individuals.¹² It would also help in registering all the MFIs and introduce a system of performance rating and accreditation and thus, help the last-mile borrowers of finance to evaluate and approach the best MFIs.¹²

03. 'e-Book of DIPP on Good governance 2014-15'; DIPP, 15 June 2015

04. 'Government Announces Enhanced Support for Export of Various Products and Covers Some Additional Products Through Merchandise Exports from India Scheme (MEIS)'; Press Information Bureau GoI, 30 October 2015

05. 'Govt adds 110 new products under MEIS to boost exports'; CNBC, 30 October 2015

06. 'PM wants zero balance for electronics' import-export'; The Business Standard, 5 August 2014

07. 'Narendra Modi to make key announcements on Startup India: MoS Jayant Sinha'; The Indian Express, 18 October 2015

08. 'Automotive Mission Plan: 2016-26 (A Curtain Raiser)'; SIAM, 8 September 2015

09. 'Give industry status to gems and jewellery sector: Assocham'; DNA India, 4 November 2015

10. 'ASSOCHAM suggests 7-pronged strategy & industry status for G&J sector'; ASSOCHAM India, 3 November 2015 Invest India website, accessed on 11 January 2016, <http://www.investindia.gov.in/gems-and-jewelry-sector/>

11. Invest India website, accessed on 11 January 2016, <http://www.investindia.gov.in/gems-and-jewelry-sector/>

12. 'MUDRA Bank: Weighing the Possible Benefits'; Maps of India, 8 April 2015



Increased GDP

- The Make in India and other development initiatives are expected to help the country to grow at an average rate of 8.8 per cent annually during 2015-25. The nominal GDP is expected to reach USD3.4 trillion by FY2019-20 and further, to USD7 trillion by FY2024-25.¹³
- The Make in India initiative aims at increasing the manufacturing sector's share in GDP from 16 to 25 per cent by 2022.¹⁴

Revival of Indian manufacturing industry

The initiative is expected to revive the manufacturing sector and make it self-reliant. The sector grew at an annual average rate of 5.77 per cent for the period 2011-15, and Make in India initiative would push the growth rate of manufacturing to 12 to 14 per cent over the next 3 to 5 years.¹⁴

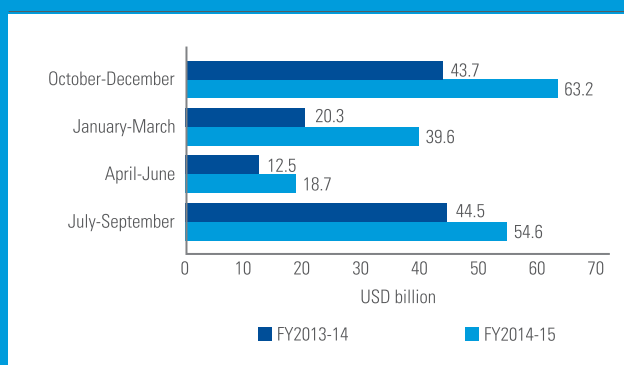
Increased employment

The Make in India initiative is expected to create employment opportunities for about 100 million additional people by 2022.¹⁵

Increase in new projects

There has been an overall increase in value of new projects announcements (government and private) on a quarter-on-quarter basis over the last 4 quarters (October 2014 to September 2015). The chart below depicts the increase:

New project announcements (October 2014 to September 2015)



Source: Centre for Monitoring Indian Economy (CMIE), <http://www.cmie.com/>

Reviving stalled projects and reducing CAD

- Through initiatives led by the Prime Minister's office, the stalled projects' value has decreased from a peak of 8.5 per cent of the country's GDP in 4Q FY2013-14 to 7.6 per cent of the GDP in 2Q FY2015-16.¹⁶
- Indigenous manufacturing would gradually reduce dependence on imports and control Current Account Deficit (CAD) of the country. This is indicated by the April to June 2015 CAD which fell to a five-quarter low at USD6.2 billion (1.2 per cent of GDP) as compared to USD7.8 billion (1.6 per cent of GDP) during the corresponding period previous year. Reduced CAD was on account of a decline in merchandise imports of the nation and falling crude prices globally.¹⁷

Turning India into an attractive investment destination

- FDI equity inflows in the country totaled USD44.3 billion in FY2014-15, up 23 per cent on FY2013-14 value of USD36 billion. In the first 2 quarters of FY2015-16 (April to September 2015), FDI inflows amounted to USD16.6 billion.¹⁸
- India's ranking in the World Economic Forum's Global Competitiveness report FY2015-16, showing a jump of 16 places.¹⁹ The country is also ranked as the fastest growing economy by the International Monetary Fund (IMF).²⁰

13. 'India to see average growth of 8.8% in next decade: D&B', ZeeNews, 29 October 2015

14. 'Note on Make In India', CMAI, 20 January 2015

15. Press Information Bureau website, Government of India, accessed 5 December 2015

16. 'Ending red tape: Once a month, PM Narendra Modi steps in to revive stalled projects', Firstpost, 30 October 2015

17. 'April-June current account deficit narrows to 1.2% of GDP', The EconomicTimes, 12 September 2015

18. 'Fact Sheet on Foreign Direct Investment (FDI)', DIPR, 1 December 2015

19. 'India jumps 16 places in WEF competitiveness ranking', Livemint, 30 September 2015

20. 'India pips US, China as No. 1 foreign direct investment destination', TheTimes of India, 30 September 2015

Business opportunities

Sector	Sector brief and recent measures	Likely growth
Automobile and auto components	<p>The Indian automobile sector accounts for 7 per cent of India's GDP and is estimated to be the third largest market globally with an annual turnover of USD145 billion by 2016.</p> <p>The government allows 100 per cent FDI in the sector through the automatic approval route.</p> <p>Foreign investments in the sector increased by 164 per cent to reach USD2.2 billion during October 2014 to April 2015 as compared to USD0.8 billion during October 2013 to April 2014.²³</p>	<p>The Automotive Mission Plan 2026 plan envisages that the Indian automotive industry will grow to USD260 to 300 billion by 2026.</p> <p>It is expected to create 65 million additional jobs and contribute over 12 per cent to India's GDP.²⁴</p> <p>The government also launched National Mission for Electric Mobility (NMEM) 2020 to foster adoption of electric and hybrid vehicles and encourage their manufacturing in India.²⁵</p>
Aviation	<p>India is the ninth largest aviation market globally, worth USD16 billion and is poised to be the third largest market by 2020.²⁶</p> <p>About 100 per cent FDI is permitted in greenfield airport projects under the automatic approval route. The government has recently permitted 49 per cent FDI through the automatic route for regional air transport services. Additionally, foreign equity caps for non-scheduled air transport services, ground handling services, satellites-establishment and operation and credit information companies have been increased from 74 to 100 per cent.^{21,22}</p> <p>India became the fastest growing aviation market of the world in June 2015, by registering a growth rate of 16 per cent y-o-y, ahead of the U.S., China and Russia.²⁷</p>	<p>The sector is expected to grow significantly with the emergence of Low Cost Carriers (LCC). Special emphasis is being given on infrastructure development, by modernising airports and navigation systems.</p> <p>About 200 low-cost airports by 2035 have been proposed by the government; an investment of USD1.3 billion on non-metro projects by 2017 to modernise and upgrade airports is also proposed.²⁷</p> <p>About 300 business jets, 300 small aircrafts and 250 helicopters are expected to be added to the existing fleet.²⁷</p> <p>Additionally, steps are being taken to make India the aviation Maintenance, Repair and Overhaul (MRO) hub of Asia.</p>
Chemical and petrochemical	<p>The chemicals industry accounts for 2.1 per cent of the nation's GDP with estimated revenues of USD144 billion. India is currently the third largest producer of chemicals in Asia and sixth (by output) in the world.</p> <p>The government permits 100 per cent FDI under the automatic approval route.^{21,22}</p>	<p>The industry is expected to grow at 9 per cent per annum to reach USD214 billion by FY2018-19.²⁸</p>
Construction	<p>Construction activities contribute to more than 10 per cent of India's GDP. The industry is valued at USD126 billion, employing more than 35 million people.</p> <p>About 100 per cent FDI is permitted through the automatic route for townships, cities and infrastructure development.</p> <p>The sector accounts for second highest FDI flow into the country. The government has, thus, eased some of its FDI restrictions for the investors recently.^{21,22}</p>	<p>The sector is expected to grow to USD186.2 billion by 2017 and would need a 76.5 million workforce by 2022.²⁹</p> <p>An investment worth USD1,000 billion is projected for the sector until 2017, 40 per cent of which would be funded by the private sector.²⁹</p> <p>At present, India has an urban housing shortage of 18.8 million units. The shortage in rural India is estimated at about 48 million.²⁹ The GoI launched Housing for All by 2022 scheme in June 2015 to provide a home for all Indians, thus presenting a significant opportunity for the investors in the sector.³⁰</p>

21. 'Investment Opportunities under India's Mega Plans', FICCI, 13 January 2015

22. Make in India website, accessed on 5 December 2015, <http://www.makeinindia.com/sectors>

23. 'Make in India effect: Foreign investment up 164 pc in auto industry', The Economic Times, 17 July 2015

24. 'Automotive Mission Plan: 2016-26 (A Curtain Raiser)', SIAM, 8 September 2015

25. Press Information Bureau, Government of India, accessed 5 December 2015

26. 'Conference Indian Aviation Sector', Ministry of Civil Aviation, 24 April 2015

27. 'Indian aviation growth fastest globally', DNA India, 7 August 2015

28. Tata Strategic Management Group, October 2015

29. 'Investment opportunities under India's mega plans', FICCI, January 2015

30. 'Housing for All by 2022' Mission - National Mission for Urban Housing, accessed on 3rd December 2015

Sector	Sector brief and recent measures	Likely growth
Defence manufacturing	<p>India spends 40 per cent of its total defence budget in capital acquisitions.</p> <p>India meets 70 per cent of its defence requirements through imports. The government has recently allowed 49 per cent FDI under automatic approval route. The portfolio investment limit has also been increased from 24 to 49 per cent.^{301,32}</p>	<p>The private sector participation is expected to enable foreign investors to enter into strategic partnerships with Indian companies and leverage the domestic market demand.^{33,34}</p> <p>India's defence budget is expected to grow at a CAGR of 8 per cent to reach a value of USD64 billion by 2020.^{33,34}</p> <p>The sector's offset clause also presents opportunities to investors. According to the clause, any foreign arms manufacturer who secures a deal/order worth more than USD46.8 million from India is required to source components worth 30 per cent of the deal value from the country.^{33,34} This presents a USD15 billion opportunity in the next 10 to 15 years.^{34,35}</p> <p>The government is expected to finalise a deal with France to procure 36 Rafael Fighter aircraft at a cost of USD8.3 billion.³⁵ The 30 per cent offset clause would present a USD2 billion opportunity for the Indian defence sector.³⁶</p>
IT and electronics	<p>The Information Technology-Business Process Management (IT-BPM) industry constitutes 8.1 per cent of India's GDP, adding about USD115 to 120 billion to the Indian economy. The sector is India's largest private employer and employs 3.1 million people.</p> <p>The Electronic System and Design Manufacturing (ESDM) industry is estimated at USD90 to 95 billion.³⁶ The government has received proposals worth USD1,716 billion from various companies since the launch of the Make in India initiative.³⁷</p> <p>The government allows 100 per cent FDI under the automatic approval route in ESDM³⁸ and various IT-BPM sub-segments including software development, testing, consultancy, research and analysis services.</p>	<p>The Digital India initiative aims at digitalising and providing basic government services online. Here, the IT-BPM sector could leverage the opportunity. Further, the sector could tap the consumer electronics market, which is expected to reach USD29 billion by 2020.³⁹</p> <p>The government plans to set-up semiconductor fabrication plants in the country. Two such facilities are expected to be set-up in Gujarat and Uttar Pradesh, where the government would invest USD10 billion for computer-chip manufacturing.³⁹ India would also invest USD400 million to develop a microprocessor.³⁹ A dedicated Electronics Development Fund had been created to leverage the use of venture capital funds to promote start-ups in the sector.⁴⁰</p> <p>The government also launched the Digital India initiative, and the India Inc. has committed an investment of USD70.2 billion to provide telephony and fast internet.⁴¹</p>
Food processing	<p>India's food processing sector ranks fifth globally in terms of exports, production and consumption. The sector amounted USD13.2 billion in FY2012-13, accounting for 9.8 per cent of the GDP.⁴²</p> <p>The government allows 100 per cent FDI through the automatic approval route for most food products.⁴³ It has also set up 42 mega food parks through PPP model with an investment of USD1.5 billion.⁴⁴</p>	<p>India's strategic geographic location and proximity to food-importing nations makes it a favourable choice for export of processed food.</p> <p>India is the largest beef exporter, largest pulses and millet producer, and the second-largest rice and wheat producer globally.^{45,46} Therefore, the food processing market presents ample opportunities for investors. Additionally, a shift toward high-protein, low-fat and organic food diet among consumers offers growth opportunities.</p> <p>The sector is expected to grow at a rate of 11 per cent until 2018⁴⁷, driven by consumer demand for packaged and ready-to-eat food.</p>

31. 'Investment Opportunities under India's Mega Plans', FICCI, 13 January 2015

32. 'Make in India website, accessed on 5 December 2015, <http://www.makeinindia.com/sectors>

33. 'Housing for All by 2022' Mission – National Mission for Urban Housing, accessed on 3rd December 2015

34. 'Relaxation of Offset Clause for Defence Procurement', Press Information Bureau Govt, 21 July 2015

35. 'Defence equipment business has companies interested like never before', LiveMint, 20 February 2015

36. 'Rafale deal to be signed on eve of Hollande's India visit', The Indian Express, 26 November 2015

37. 'PM Modi's 'Make in India' turns one: All you need to know about the initiative', DNA, 25 September 2015

38. 'FAQs on various aspects related to Foreign Direct Investment in ESDM sector', Department of Electronics and Information Technology (DeitY), accessed 02 December 2015

39. 'Electronic Systems', Make in India, accessed on 22 December 2015

40. 'Indian Govt to Invest \$10 bn for Semiconductor Fab', TeleAnalysis, 28 March 2015

41. 'Digital India: India Inc. commits to invest Rs 4.5 trillion', BGR, 2 July 2015

42. 'Contribution of Food Processing Sector to GDP (at 2004-05 prices)', Ministry of Food Processing Industries, accessed 11 December 2015

43. 'FDI Policy – Food Processing Sector', Make in India, accessed 02 December 2015

44. '42 mega food parks worth Rs 2,000 crore to be set up in the country', The Economic Times, December 2015

45. 'India Stays World's Top Beef Exporter Despite New Bans on Slaughtering Cows', The Time, 23 April 2015

46. 'FAO website – 2013 data, http://faostat3.fao.org/browse/rankings/commodities_by_country/E accessed on 7 December 2015

47. 'The Next Manufacturing Destination', Make in India, accessed 02 December 2015

Sector	Sector brief and recent measures	Likely growth
Railways	<p>With a network spanning more than 65,000 kms, the sector at present employs 1.4 million people.⁴⁸</p> <p>The government has recently allowed 100 per cent FDI under automatic approval route for railway infrastructure.⁴⁹</p>	<p>Railways offer investment opportunities in infrastructure modernisation and high speed rail networks. The government aims to award projects worth USD1,000 billion through the PPP model.⁴⁸</p> <p>The railway ministry envisages an investment of USD132.4 billion by 2020.⁵⁰</p> <p>The government's proposal to expand the rail network — increasing the track length by 20 per cent, increasing the passenger and freight carrying capacities — would present multi-billion opportunities for investors.⁵¹ Also, increased manufacturing activity would entail the need of transporting commodities and coal within the country.</p>
Renewable energy	<p>Under the automatic approval route, 100 per cent FDI is permitted for renewable energy generation and distribution projects.⁵¹</p> <p>India has a current installed capacity of 34.5GW of renewable energy with a major share of wind energy at 22.6GW.⁵²</p>	<p>The country has revised its renewable energy targets for 2022, totalling 175GW from the sector, constituting:</p> <ul style="list-style-type: none"> • Solar energy — 100GW • Wind energy — 60GW • Biomass energy — 10GW • Small hydro energy — 5GW.⁵³ <p>The government has announced development of Ultra Mega Solar Power Projects and Solar Parks with an investment of USD156 million. Additionally, the country has untapped potential of 102.8GW of wind energy as compared to current capacity of 21.1GW.⁵³</p> <p>About 4.8GW of solar power capacity would be auctioned during November 2015 to April 2016, with 90 per cent of the capacity to be floated through the central government. To tap the potential market, a Japanese consortium has set up a Joint Venture (JV) with an Indian telecom provider to bid for contracts. Similarly, a U.S. based renewable energy firm intends to invest USD15 billion by 2022 in India.⁵³ India is likely to add 10.8GW solar capacity in FY2016-17.⁵¹</p> <p>A recent Supreme Court judgement also makes it mandatory for industries with captive power plants to procure a percentage of their energy from renewable sources.⁵⁴</p>

48. 'Railways', Investment and Technology Promotion Division Gol, September 2015

49. Make in India website, accessed on 5 December 2015, <http://www.makeinindia.com/sectors>

50. 'Highlights of the Railway Budget 2015-16', Indian Railways, 25 February 2015

51. Indian Railways website, http://www.indianrailways.gov.in/railwayboard/uploads/directorate/finance_budget/Budget_2015-16/English_Speech_Highlights_2015-16.pdf accessed 11 December 2015

52. 'Renewable Energy in India: Growth and Targets', Ministry of New and Renewable Energy, 13 May 2015

53. 'For Investors, India's Solar Push Could Signal A Gold Rush', The Forbes, 7 July 2015

54. 'India's Supreme Court Reinforces Renewable Energy Targets for Industry', World Resources Institute, 17 June 2015

Sector	Sector brief and recent measures	Likely growth
Textile and garments	<p>India has the second largest manufacturing capacity globally in textiles and garments.⁵⁵ The industry contributes 14 per cent to country's industrial production, 4 per cent to GDP and 13 per cent to exports, and is expected to reach a value of USD100 billion by 2017.⁵⁶</p> <p>Under the automatic approval route in the textile sector, 100 per cent FDI is allowed.⁵⁵</p>	<p>The Indian textile and apparel industry (domestic sales and exports) is expected to grow from USD107 billion at present to USD223 billion by 2021.⁵⁷</p> <p>The sector has a potential to generate additional 6.31 million jobs between 2013 and 2022.⁵⁸</p>
Tourism and hospitality	<p>Tourism accounted for 7 per cent of the country's GDP in 2014, contributing USD119.2 billion and generating 36.7 million jobs.⁵⁹</p> <p>In tourism and hospitality, 100 per cent FDI is allowed under the automatic approval route.⁵⁵</p>	<p>India offers a geographical diversity, world heritage sites and niche tourism products like cruises, adventure, medical, eco-tourism, film, rural and religion tourism.</p> <p>The segment offers opportunities for resorts, convention centres, motels, heritage hotels, tour operations and travel guides, and other stakeholders.</p>



55. Make in India website, accessed on 5 December 2015, <http://www.makeinindia.com/sectors>

56. 'Textiles and Garments', Make in India, accessed on 22 December 2015

57. 'India ITME-2016 - the 'Game changer & catalyst' for Textile industry & Textile Machinery manufacturers', Textile Association of India, 15 October 2015

58. 'Textiles and Clothing Sector (2013-17, 2017-22)', NSDC report, accessed on 02 December 2015

59. 'Travel and tourism industry to grow 7.5% in 2015: report', Live Mint, 24 March 2015

Urban development - transforming Indian cities

Project outlay

The estimated outlay for the Smart Cities Mission from FY2015-16 to FY2019-20 is more than USD15 billion.⁰¹

The estimated outlay for the Atal Mission for Rejuvenation and Urban Transformation (AMRUT) from FY2015-16 to FY2019-20 is approximately USD7.5 billion.⁰²



01. Smart Cities Mission Statement & Guidelines, Ministry of Urban Development, Government of India, June 2015, <http://smartcities.gov.in/writereaddata/SmartCityGuidelines.pdf>

02. AMRUT Mission Statement and Guidelines, Ministry of Urban Development, Government of India, June 2015, <http://amrut.gov.in/writereaddata/AMRUT%20Guidelines%20.pdf>

Smart Cities Mission

Objective(s)

The Smart Cities Mission aims to drive economic growth and improve the quality of life in the country by enabling local area development and harnessing technology, especially technology that leads to Smart outcomes.⁰¹



Introduction⁰¹

The Smart Cities initiative will help create cities which optimally tap into digital and information technologies, urban planning best practices, public-private partnerships, and positive policy changes.

The mission shall be implemented through area-based and pan-city developments. The area-based developments would include the following:

- Retrofitting which shall include transformation of existing built-up areas through more intensive infrastructure services and smart applications (e.g. city centres and central zones).
- Redevelopment of existing areas, including replacement of existing built-up environments to enable co-creation of new layouts with better infrastructure and land-use (e.g. redevelopment of slums).
- Greenfield developments to introduce smart solutions to the cities through innovation planning, financial planning and implementation planning tools to accommodate expanding populations (e.g. Industrial and Technology Parks and clusters, such as the Gujarat International Finance Tec-City (GIFT City) in Gujarat).

In addition to the above, pan-city developments would aim to enable the application of identified smart solutions to existing infrastructure across the cities. The application would leverage state-of-the-art Information and Communication Technology (ICT) tools to improve the living conditions and governance. (e.g. intelligent traffic management systems, waste water recycling, smart metering, etc.).

The above mentioned developments have been set in place, to accommodate expanding populations in cities while improving the livability of the entire city.

Further, the core infrastructure of a smart city would include the following elements:

- Adequate water supply
- Assured electricity supply
- Sanitation, including solid waste management
- Efficient urban mobility and public transport
- Affordable housing, especially for the poor
- Robust IT connectivity and digitisation
- Good governance, especially e-governance and citizen participation
- Sustainable environment
- Safety and security of citizens, particularly women, children and the elderly, and
- Health and education.

It has been envisaged that the area-based and pan-city development objectives would converge with other initiatives including AMRUT and Clean India Mission.

01. Smart Cities Mission Statement & Guidelines, Ministry of Urban Development, Government of India, June 2015, <http://smartcities.gov.in/writereaddata/SmartCityGuidelines.pdf>



Steps taken so far

Smart cities

Identification and allocation of smart cities for each state/ Union Territory(UT)

- A total of 100 cities have been identified for the mission⁰².
- First phase of India Smart Cities Challenge was conducted to promote competitive and cooperative federalism; about 97 cities submitted their Smart Cities Proposals (SCPs) to the Ministry of Urban Development (MoUD). Up to 20 of the best SCPs are set to be shortlisted to receive funding from MoUD after the first round.

Financing strategy

- The Smart Cities Mission is to be implemented as a centrally sponsored scheme with central government providing financial support to the extent of approximately USD7.2 billion over 5 years, which would be matched up by respective states and ULBs⁰². In addition, it is expected that funding shall come from PPP, commercial/ multinational bodies. The private sector would have a role to play — by taking up projects in PPP mode or work as contractors, consultants, etc.
- Certain sectors of urban infrastructure such as power, ICT and integrated townships would bear the maximum impact of transformation. Both in terms of requirement (resources) and impact, these sectors are expected to play vital roles, and thus warrant conceptualisation of focussed financing mechanisms.

Mission statement and guidelines⁰²

- MoUD has made a comprehensive guide available, to assist states and ULBs to formulate their strategies and SCPs. The document also prescribes the implementation of Special Purpose Vehicles (SPVs) to plan, evaluate, release funds, operate and monitor the development projects under the initiative.
- Greenfield developments and other urban initiatives such as international airports, port cities and industrial clusters, among others are also being taken up to complement the Smart Cities Mission.
- To encourage the development of smart cities providing habitation for the neo-middle class, the requirement for the built up area and capital conditions for FDI are being reduced from 50,000 sq m to 20,000 sq m and from USD10 million to USD5 million, respectively. As a further impetus, projects that commit at least 30 per cent of the total project cost for low cost affordable housing would be exempted from the minimum built-up area and capitalisation requirements⁰³.

Expected next steps^{02,04}

- With the conclusion of the first round of the Smart Cities Challenge, up to 20 cities will be selected in the first year, which would be eligible to receive funding of up to USD75.75 million from the government over the next 5 years in a phased manner.
- Special Purpose Vehicles (SPVs) would be set up for the implementation of the projects as per the plan envisaged in the SCPs.
- The remaining 77 cities are expected to be funded for Smart Cities transformation, over the next 2 years.



02. Smart Cities Mission Statement & Guidelines, Ministry of Urban Development, Government of India, June 2015, <http://smartcities.gov.in/writereaddata/SmartCityGuidelines.pdf>

03. FDI in insurance to be hiked to 49 per cent: Jaitley, The Indian Express, 10 July 2014, <http://indianexpress.com/article/india/politics/fdi-in-insurance-to-be-hiked-to-49-per-cent-jaitley/>

04. India Smart Cities Challenge, <http://smartcitieschallenge.in> – accessed on 30 November 2015



Impact

Transformative impact on urban infrastructure

The envisaged spend for the initiative is stated to come from the MoUD, the concerned states, ULBs and PPP/commercial/multinational bodies.

Creation of market for manufactured goods and commodities

An approach towards urban living and smart living would entail significant procurement of steel, cement, electronics, furnishings, electrical equipment, sewage plants, ICT equipment and services, etc. triggering a growth in global trade.

Improved economic efficiency

Smart cities would require augmented safety, security, sustainability and energy efficiency that could help trigger a virtuous cycle of efficiency.

Business opportunities

Significant business opportunities are foreseen for both domestic and global players in light of the potential investments required for the implementation of the Smart Cities projects.

Investment potential

- The Centre's Expenditure Finance Committee has approved a central funding of approximately USD42 billion to develop 100 smart cities and upgrade the basic civic infrastructure in another 500 cities during the next 10 years⁰⁵. However, given the scale of development, the total funding requirement would be more than USD1 trillion at present value terms over the next 20 years.
- The magnitude of investments is extremely significant for the economy. For instance, the state of Maharashtra has been allocated 10 smart cities, which would add up to a spending of approximately USD6 billion over 5 years.
- India has also invited other countries for partnership in developing the smart cities and has signed agreements to build 8 such cities — 3 with Germany, 3 with the U.S., and 1 each with Spain and Singapore⁰⁶.

The following table lists the potential business opportunities for both domestic and foreign investors through different schemes in each sector:

Sector	Investment potential
Smart governance	USD83 million allocated for Digital India initiative.
Smart energy	<ul style="list-style-type: none"> • Implementation of 8 smart grid pilot projects in India with an investment of USD10 million for energy storage • The Power Grid Corporation of India has planned to invest USD26 billion in the next 5 years; about 130 million smart meters would be installed by 2021.
Smart environment	The Ministry of Water Resources plans to invest USD50 billion in the water sector in the coming years.
Smart transportation	<ul style="list-style-type: none"> • The Government of India has approved a USD4.13 billion plan to spur electric and hybrid vehicle production by setting up an ambitious target of 6 million vehicles by 2020. • MoUD plans to invest more than USD20 billion on the metro rail projects in the coming years. • The proposed 534km Mumbai-Ahmedabad high speed rail project would have an investment of about USD10.5 billion.
Smart ICT	<ul style="list-style-type: none"> • Cloud computing is expected to evolve into a USD4.5 billion market in India by 2016. • Under the flagship Safe City project, the Union Ministry proposes USD333 million to make 7 big cities (Delhi, Mumbai, Kolkata, Chennai, Ahmedabad, Bengaluru and Hyderabad) to focus on technological advancement rather than manpower disaster management.

05. Top govt panel approves Rs 2.73 lakh crore to modernise cities, HindustanTimes, 28 March 2015, <http://www.hindustantimes.com/india/top-govt-panel-approves-rs-2-73-lakh-crore-to-modernise-cities/story-UL8VEEHPhRM6V8eTjVDpO.html> - accessed on 3 December 2015

06. India's Smart City vision is part of a larger agenda of creating Industrial Corridors between India's big metropolitan cities in India, Make in India, <http://www.makeinindia.com/article/-/v/internet-of-things> - accessed on 3 December 2015

Sector	Investment potential
Smart building	<ul style="list-style-type: none"> India is expected to emerge as the world's third largest construction market by 2020, by adding 11.5 million homes every year. The Intelligent Building Management Systems market is estimated to be worth USD621 million and is expected to reach USD1,891 million by 2016.
Smart health and education	<ul style="list-style-type: none"> The health budget was up by 27 per cent in FY2013-14 to USD5.26 billion, with special focus on improving affordable healthcare for all. FDI limit in the insurance sector increased to 49 per cent from 26 per cent. The Indian medical devices market is expected to reach USD11 billion by 2023.

Source: India's Smart City vision is part of a larger agenda of creating Industrial Corridors between India's big metropolitan cities in India, Make in India, <http://www.makeinindia.com/article/-/v/internet-of-things> - accessed on 3 December 2015

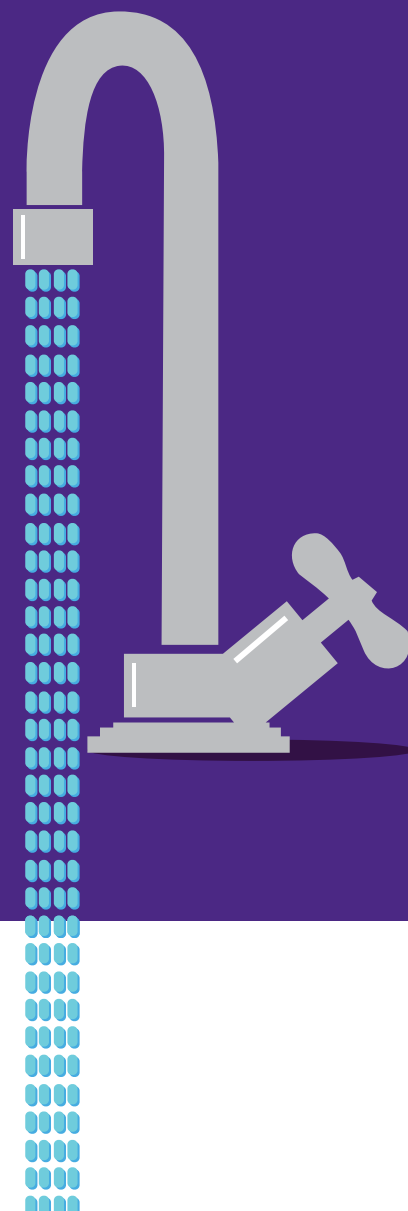


AMRUT - rejuvenation of 500 cities

Objective(s)⁰¹

Atal Mission for Rejuvenation and Urban Transformation (AMRUT) envisages urban India's transformation, by aiming to:

1. Ensure that every household has access to a tap with assured supply of water and a sewerage connection;
2. Increase the amenity value of cities by developing greenery and well maintained open spaces (e.g., parks); and
3. Reduce pollution by switching to public transport or constructing facilities for non-motorised transport (e.g., walking and cycling).



Introduction⁰¹

The primary purpose of the flagship initiative, AMRUT, is to provide basic services such as water supply, sewerage and urban transport to every household in order to improve the quality of life, while promoting equitable access to city services. Among the estimated 4,040 urban zones in India, about 500 would be targeted through AMRUT.

The objectives of AMRUT constitute the Service Level Benchmarks (SLBs). The capacity building and supportive reforms, which act as integral parts of the mission, aim at improving service delivery, resource mobilisation and greater transparency in municipal functioning and capacity building in order to empower municipalities and increase their operational efficiency.

The mission envisages to focus on the following Thrust Areas⁰²:

- Water supply
- Sewerage facilities and septage management
- Storm water drains to reduce flooding
- Pedestrian, non-motorised and public transport facilities, parking spaces, and
- Enhancing amenity value of cities by creating and upgrading green spaces, parks and recreation centres, especially for children.

01. The Mission, AMRUT, Ministry of Urban Development, Government of India, <http://amrut.gov.in/writereaddata/The%20Mission.pdf>

02. Thrust Areas, AMRUT, Ministry of Urban Development, Government of India, <http://amrut.gov.in/writereaddata/Thrust%20Areas.pdf>



Steps taken so far

Identification of cities⁰³

About 500 cities have been selected based on the following criteria:

- All cities and towns with a population greater than 100,000, having notified municipalities, including cantonment boards (civilian areas)
- All capital cities/towns of states/UTs, not covered under the 100 Smart Cities Mission
- All cities/towns classified as heritage cities by MoUD
- Thirteen cities and towns on the stem of the main rivers with a population between 75,000 and 100,000
- Ten cities from hill states, islands and tourist destinations (not more than 1 from each state).

Identification of mission components⁰⁴

MoUD has identified capacity building, reform implementation, water supply, sewerage and septage management, storm water drainage, urban transport and green-space development as the chief components of the mission.

Finance strategy⁰⁵

With a total estimated outlay of USD7.5 billion for the period between FY2014-15 and FY2018-19, the initiative is to be operated as a centrally sponsored scheme. The funds would consist of the following:

1. Project fund (80 per cent of the annual budgetary allocation)
2. Incentive for reforms (10 per cent of the annual budgetary allocation)
3. State funds for administrative and office expenses (8 per cent of the annual budgetary allocation)
4. MoUD funds for administrative and office expenses (2 per cent of the annual budgetary allocation).

Reform milestones⁰⁶

The reform milestones with corresponding timelines for AMRUT cities have been created in order to constitute a guiding source for ULBs and states. The areas covered by the milestones are e-governance, creation and adding professional approach to municipal cadre, review of building by-laws, accountability and auditing, city level plans, devolution of funds, setting up financial intermediaries, tax and user fee collection, credit rating, energy and water audit, sanitation and hygiene (alignment with the Clean India Mission).

Capacity building

For individual capacity building⁰⁷, key departments in ULBs have been identified as follows:

- **Finance and revenue**
Financial planning and management, and revenue mobilisation
- **Engineering and public health**
Water and sanitation, drainage and solid waste management
- **Town planning**
Urban planning including pro-poor planning approaches
- **Administration**
e-Governance, computer and soft skills.

The aim of institutional capacity building⁰⁷, is to improve institutional outcomes including accountability and transparency, service delivery, citizen empowerment and resource mobilisation. Institutional capacity could be built upon accountability and transparency, service delivery, citizen empowerment and resource mobilisation.

Expected next steps⁰⁸

- State governments shall formulate and submit their State Annual Action Plans (SAAP) under AMRUT.
- Post the appraisal and approval by the Apex Committee, states shall invite consultants to help formulate the plans.
- Consequently, the states shall invite vendors to execute the plans.
- City level Action Plans have been approved for 474 cities in 18 States and union territories with a total project expenditure of about USD2.94 billion under AMRUT for FY2015-16⁰⁹.

03. Coverage, AMRUT, Ministry of Urban Development, Government of India, <http://amrut.gov.in/writereaddata/Coverage.pdf>

04. The Mission, AMRUT, Ministry of Urban Development, Government of India, <http://amrut.gov.in/writereaddata/The%20Mission.pdf>

05. Fund Allocation, AMRUT, Ministry of Urban Development, Government of India, <http://amrut.gov.in/writereaddata/Fund%20Allocation.pdf>

06. List of Reforms, AMRUT, Ministry of Urban Development, Government of India, <http://amrut.gov.in/writereaddata/List%20of%20Reforms.pdf>

07. Individual Capacity Building, AMRUT, Ministry of Urban Development, Government of India, <http://amrut.gov.in/writereaddata/Individual%20Capacity%20Building%20Plan.pdf>

08. AMRUT Action Plans for 474 cities cleared with a project outlay of Rs.19,170cr, Press Information Bureau, Government of India, 15 December 2015, <http://pib.nic.in/newsite/printrelease.aspx?relid=133300>

09. Execution Steps, AMRUT, Ministry of Urban Development, Government of India, <http://amrut.gov.in/writereaddata/Execution%20Steps.pdf>



Impact

Multiplier effect/complementarity

AMRUT holds significant implications for urban transformation vis-à-vis the 100 Smart Cities Mission. While the former has a project-based approach, the latter follows an area-based strategy.

On the other hand, at the planning stage itself, cities have been instructed to converge their smart city planning, aligning them to the objectives of AMRUT, Clean India Mission, National Heritage City Development and Augmentation Yojana (HRIDAY), Digital India, Skill Development, Housing for All, construction of museums funded by the Department of Culture and other programmes connected to social infrastructure such as health, education and culture.

Enhanced operational efficiencies of cities¹⁰

The reforms of the mission aim at enhancing the operations and efficiencies of ULBs and capacity building in order to empower municipal functionaries and enable timely completion of projects.

Business opportunities

As per the fund allocation statement, the scope of investment is estimated at USD15.15 million per city, for 500 cities, over the next 5 years¹¹. AMRUT is expected to impact the following spheres of urban living, implying opportunities for investments:

1. Digitisation of ULBs offers scope for integrated platforms and services such as digital registries (births, deaths, marriages, pensions, etc.), property registration and taxation, issuance of licenses, construction permits, personnel training, MIS, grievance redressal system, energy and water audit, e-procurement and e-governance.
2. Creation of municipal cadre where personnel requirements to operationalise the objectives of capacity building in ULBs would present scope for specialised cadre training programmes.
3. Water management components of the mission present scope for investment in water treatment plants, pipelines, metering and grid management solutions, de-silting, ground-water recharge, etc.
4. Waste management components would include decentralised underground sewerage networks, sewage treatment plants, waste collection-transport-treatment integration, septage cleaning-transport-treatment, storm water drainage and reuse, etc.
5. Urban transport component would present the scope to invest in ferry vessels, pathways, skywalks, non-motorised transport, multi-level smart parking, bus rapid transport system, etc.
6. Green zone components would entail scope for landscaping, creating of green infrastructure (parks, ponds, etc.), vertical greening, etc.
7. Reform implementation would need services like implementation, consulting, monitoring and evaluation services.



10. The Mission, AMRUT, Ministry of Urban Development, Government of India, <http://amrut.gov.in/writereaddata/The%20Mission.pdf>

11. Fund Allocation, AMRUT, Ministry of Urban Development, Government of India, <http://amrut.gov.in/writereaddata/Fund%20Allocation.pdf>

Doing business made easy - creating an encouraging business environment

Objective

Launched with an aim to create conducive business environment by streamlining the regulatory structures, to create an investor-friendly business climate by cutting through red tape.





Introduction

Ease of Doing Business (EoDB) in India is an attempt to simplify the processes involved in conducting business in India. It measures and tracks changes in regulations affecting 11 areas of a business life cycle i.e., starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying

taxes, trading across borders, enforcing contracts, resolving insolvency and labour market regulation.

India has shown an improvement on the World Bank's latest ease of doing business report (from 134 in 2015 to 130 in 2016), and the current government set itself an ambitious target of getting the ranking within the top 50 by 2017.⁰¹

Days required to start
a business in India⁰²



2015



2016



01. India's World Bank ranking on 'ease of business' will improve further: Arun Jaitley, The Economic Times, 29 October 2015.

02. The World Bank's Doing Business database, accessed on 15 December 2015.



Steps taken so far

Central government initiatives⁰³

- To promote competitive federalism and improve business condition across the country, the central government has conducted an assessment of state implementation of business reforms.
- A proposition of unified online portal for: registration of Labour Identification Number (LIN), combined filing returns under 8 labour laws and simplified grievance redressal.
- Online portals for Employees State Insurance Corporation (ESIC) and Employees Provident Fund Organisation (EPFO) for: real-time registration and payments through 56 accredited banks.
- For single-window clearance, 14 central government services are integrated with e-Biz portal. Through the e-Biz website, entrepreneurs can apply for Industrial License (IL) and Industrial Entrepreneur Memorandum (IEM) on a 24x7 basis.
- The distinction between partial and full commencement of production for all products is no longer applicable.
- Colour-coded maps for locations requiring NOC from the Airports Authority of India (AAI) could be viewed online.
- Documents required for export and import businesses have been reduced from 7 to 3.
- The Companies Act has been amended to remove the provision of minimum paid-up capital to start a new business in the country. To simplify and fast track the procedure for company registration in India, the Ministry of Corporate Affairs (MCA) has introduced Form INC-29 — Integrated Incorporation Form.
- Arbitration Act has been amended to fix deadline to finish commercial disputes.
- The Bankruptcy Law Reform Committee submitted its report to the Finance Ministry on 4 November 2015, to make bankruptcy process faster and fair for improving EoDB (Ease of Doing Business).
- A checklist with specific time-lines has been introduced to process all applications filed by foreign investors for cases related to retail/NRI/EoU foreign investments.
- An Investor Facilitation Cell has been established to guide, assist and handhold investors during the entire life cycle of a business.

Sector initiatives

Aviation

- Proposed open sky policy allows countries beyond 5,000km to expand their network and frequencies in India.⁰⁴
- MRO activities are proposed to be excluded from service tax; tools and parts imported for MRO activities are proposed to be exempted from customs duty.⁰⁵
- Such tools and parts would be allowed to be stored for 3 years without any taxes.⁰⁵
- Airport royalty and additional levies on MRO service providers will be rationalised in consultation with airport operators.⁰⁵

Defence

- Up to 49 per cent FDI in defence sector is allowed under automatic route.⁰⁶
- If state-of-the-art technology is provided in India, 100 per cent FDI is allowed.⁰⁷
- Retrospective changes have been brought in offsets policy, allowing foreign firms with more flexibility in selecting partners.⁰⁸
- Validity of industrial licence has been extended to 15 years and could be extended further for 3 years.⁰⁹

Telecom¹⁰

- New spectrum trading guidelines could free up unused airwaves for telecom companies.

Petrochemical

- Customs duty structure has been rationalised, augmenting competitiveness of the domestic petrochemical industry.
- Four Petroleum, Chemicals and Petrochemical Investment Regions (PCPIRs) have been approved in the states of Andhra Pradesh, Gujarat, Odisha and Tamil Nadu. The 4 regions have so far attracted around USD23.4 billion investment.¹¹

Coal

- Policy for automatic transfer of coal linkage in case of scrapping of old thermal plants and replacing them with new supercritical plants.¹²
- Swapping of coal between state-owned power companies and central power utilities has been allowed.¹³
- One billion tonne coal production target has been set for state-owned coal India.¹⁴
- Three rounds of e-auctioning of coal blocks have generated proceeds over USD47 billion.¹⁵
- Online Coal Project Monitoring Portal (CPMP) has been launched to interact with all the stakeholders to resolve issues and avoid delay.¹⁶

03. Make in India website, accessed on 20 December 2015.

04. The World Bank's Doing Business database, accessed on 15 December 2015.

05. Draft aviation policy: India eyes MRO hub ambitions, The Financial Express, 30 October 2015.

06. Opposition to challenge government's defence FDI notification, The Economic Times, 13 November 2015.

07. Boost domestic R&D in defence technology, The Economic Times, 04 November 2015.

08. Defence Ministry brings major retrospective changes in offsets policy, The Economic Times, 13 August 2015.

09. Industrial licence validity for defence raised to 15 years, The Economic Times, 23 September 2015.

10. Government approves spectrum trading norms for telecom firms, The Times of India, 09 September 2015.

11. Setting up of Petroleum, Chemicals and Petrochemical investment Regions, Press Information Bureau, Govt, 10 March 2015.

12. Coal Ministry Approves Transfer of Existing Coal Linkage of Panipat TPS, Press Information Bureau, 17 April 2015.

13. Government mulls swapping of coal supplies only for state-run utilities, The Economic Times, 06 February 2015.

14. Coal India output up 8.8% over last year's production, Mint, 26 December 2015.

15. Government to auction 9 coal blocks in fourth round, Business Today, 10 December 2015.

16. Coal Minister launches online project monitoring portal, The Hindu Business Line, 26 March 2015.

Oil and gas¹⁷

- Government of India approved the auctioning of 69 oil and gas marginal fields.
- A more transparent and market-oriented regime has been adopted to auctioning the fields.
- Single license is expected to cover all types of hydrocarbons, as opposed to the earlier system where a separate license for each product.
- Successful bidders would be given freedom to sell oil products at market prices.
- The existing cost recovery method (successful bidders are allowed to recover their expenditure before paying their share to the government) is replaced by revenue-sharing model.

Tax-related initiatives¹⁸

Measures to reduce litigation and provide certainty

- A concessional corporate tax rate of 25 per cent can be availed by new eligible manufacturing units.
- The Central Board of Direct Taxes ('CBDT') has clarified that the MAT provisions are not applicable to a foreign company not having a PE in India.
- A deduction of 30 per cent for additional wages paid to new workmen in a factory for three years has been extended to all assesseees subject to tax audit. The condition of 10 per cent minimum number of persons employed during the year is relaxed and an employee can be employed for a minimum period of 240 days instead of 300 days with a monthly emolument less than INR25,000.
- CBDT has clarified that Long Term Capital Gains derived by non-residents from the transfer of shares of a closely held private limited company are taxable at the rate of 10 per cent.
- A foreign company would not be liable to a higher initial withholding tax rate of 20 per cent on non-furnishing of PAN, if the prescribed conditions are fulfilled.
- Equalisation levy of 6 per cent is applicable on the consideration payable to non-residents not having a PE for online advertisement or similar specified services. These provisions are applicable if the aggregate amount payable exceeds INR 0.10 million per annum.
- Various profit, investment linked and area-based deductions are proposed to be removed in a phased manner.
- A 100 per cent deduction has been provided for a period of three consecutive years out of the initial five years for eligible 'startups' which are set-up before 1 April 2019 and whose turnover does not exceed INR250 Million in any FY from 1 April 2016 to 31 March 2021.
- A patent box regime introduced - Income by way of royalty with respect to patents developed and registered in India by a resident in India is to be taxed at the rate of 10 per cent (plus surcharge and cess) on a gross basis. The income will not be subject to MAT.

Use of new technology to ease various procedural requirements

- New facility of pre-filling TDS data while submitting online rectification.¹⁹
- Use of email based communication for paperless assessment proceedings.²⁰
- Usage of the Digital Signature Certificate for electronic filing of customs documents.²¹

GST

- The advantage of GST is that it will widen the tax base, subsume several central and state taxes and give one tax rate, give input credit and also push the gross domestic product up. The committee headed by the Chief Economic Adviser Dr. Arvind Subramanian on possible tax rates under GST has submitted its report to the Finance Minister in December 2015.²²
- The joint committee issued a report on the GST return process.²³



17. Govt to auction 69 oil, gas fields under revenue-sharing model, Mint, 03 September 2015.

18. KPMG in India's analysis 2016 of the provisions of the Union Budget 2016.

19. New facility of pre-filling TDS data while submitting online rectification, Press Information Bureau, Gol, 10 December 2015.

20. Going paperless: CBDT to roll out pilot project on e-assessments, The Hindu BusinessLine, 20 October 2015.

21. Usage of Digital Signature Certificate in Remote EDI filing (RES) of Customs Documents, Circular No. 10/2015-Customs, Ministry of Finance Department of Revenue, 31 March 2015.

22. Press Information Bureau, Gol, 4 December 2015.

23. The Joint Committee report on the Goods and Services Tax return process, KPMG in India, Tax Flash News, 23 October 2015.

Transfer Pricing

- CBDT revises and updates guidance for selection and referral of transfer pricing cases for assessments.²⁴
- CBDT issues important directives on Safe Harbour Rules.²⁵
- Safe harbour rules for transfer pricing documentation: notified for specified domestic transactions of electricity companies run by the government.²⁶
- CBDT issues FAQs on Advance Pricing Agreement (APA) rollback provisions.²⁷
- Rollback rules notified and pre-filing consultation made optional.²⁸
- Introduction of BEPS guidelines in line with the OECD recommendations.²⁹
- Implementation of a three-tiered transfer pricing documentation structure – master file, local file and country by country report.²⁹

FDI-related initiatives

- FDI regime has been simplified by introducing a composite cap that combines FDI, FPI and investments by NRIs³⁰;

various notifications related to FDI are likely to be consolidated in a single booklet.

- Warrants and partly-paid shares are issued by Indian companies that would be eligible instruments for FDI.³¹
- Investments in India by firms owned and controlled by NRIs shall be deemed as domestic.
- Government of India has permitted 100 per cent FDI under automatic route for Limited Liability Partnerships (LLPs) in sectors that do not require government's approval.³²
- For ease of transfer of ownership, government approval will be required only if the company functions in the sector in which government's approval is required rather than capped sectors.³²
- Government's approval will not be required for selling product through wholesale or retail including e-commerce.³²
- Threshold equity investment has been raised to approximately USD780 million from USD467 million and proposals above USD780 million will now go to CCEA.³²

Other FDI reforms (sector-wise)³²

S. No.	Sector	Change in policy
1	Construction	Floor area restriction and minimum capitalisation removed; each phase of construction will be considered a separate project; easy exit for foreign investors if project or trunk infra completed or 3 years of lock-in for each tranche completed; and 100 per cent FDI in automatic route permitted for operation of townships, malls, and business centres.
2	Direct-to-home (DTH) and multi-system operators (MSOs)	Cap raised to 100 per cent (49 per cent automatic and beyond Government approval).
3	Non-news broadcasters	FDI limit raised to 100 per cent from 74 per cent (automatic route).
4	News, current affairs and FM radio	FDI limit raised to 49 per cent from 24 per cent (FIPB approval).
5	Private banks	Full fungibility of foreign investment with sectoral limit at 74 per cent.
6	Plantation	Coffee, rubber, cardamom, palm oil and olive oil opened up to 100 per cent.
7	Single brand retail trading	A single entity can undertake both wholesale and single-brand retail as long as both business arms comply to the conditions of FDI policy.
8	Regional air transport	FDI limit raised to 49 per cent under automatic route.
9	Non-scheduled air transport, ground handling services, satellites and credit information companies	FDI limit raised from 74 per cent to 100 per cent under automatic route.

24. CBDT revises and updates guidance for selection and referral of transfer pricing cases for assessments, KPMG in India, Tax Flash News, 21 October 2015.

25. CBDT issues important directives on safe harbour rules, KPMG in India, KPMG Flash News, 6 January 2014.

26. Safe harbour rules for transfer pricing documentation: notified for specified domestic transactions of electricity companies run by the government. KPMG in India, KPMG Flash News, 10 February 2015.

27. CBDT issues FAQs on Advance Pricing Agreement (APA) rollback provisions, KPMG in India, Tax Flash News, 12 June 2015.

28. Indian Advance Pricing Agreements - Rollback rules notified and pre-filing consultation made optional, KPMG in India, KPMG Flash News, 16 March 2015.

29. KPMG in India's analysis 2016 of the provisions of the Union Budget 2016.

30. Nod to composite cap on foreign investment, Business Standard, 17 June 2015.

31. Govt opens FDI door wider by allowing partly-paid shares, The Hindu Business Line, 15 September 2015.

32. Reforms in FDI, Press Information Bureau, 10 November 2015.

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