IV. TRADE POLICIES BY SELECTED SECTOR

(1) OVERVIEW

1. The structure of India's economy has not changed significantly since 2007. The services sector, which has been the most dynamic sector during the period under review, continues to be the largest contributor to GDP (and employment) and has exhibited resilience to the negative effects of the global crisis. The share of the manufacturing sector in GDP has declined slightly, as has the share of agriculture. Sustained growth in all sectors in India would require measures to deal with bottlenecks and investment in infrastructure and education.

2. During the period under review, the share of agriculture in GDP fell from 18.1% to 16.6% and growth in the sector remained weak due to a prolonged drought, excessive reliance on monsoon-related crops, and low productivity. However, despite the decline in its relative share, agriculture continues to be the mainstay of the majority of the population, occupying some 52% of the total workforce (including non-organized labour); the sector is also critical for achieving the Government's objectives of food security and price stability. Reflecting its importance, support to the sector through various trade measures remains considerable. Average tariff protection on agriculture (33.2%) remains substantially higher than on manufactured goods (8.9%). In general, India's tariffs are higher for agricultural goods and processed goods than for semi-manufactures. This responds in part to the strategy of protecting agriculture while promoting the development of manufacturing activities, which require imports of intermediate goods. It may also reflect India's policy of granting import duty concessions for intermediate goods under different export and investment promotion schemes.

3. Manufacturing showed robust growth over 2006/07 and 2007/08, but was subsequently affected by the global economic crisis, which led to a decline in foreign demand, particularly in areas such as textiles and clothing. However, there was a resurgence of growth in 2009/10, mainly triggered by stronger domestic demand, particularly for consumer durables, capital goods, and industrial inputs. In order to encourage investment in the manufacturing sector, the Government has offered a wide range of tax incentives, concessionary credit, and other types of assistance.

4. The services sector, which accounts for 56% of GDP, has emerged as the main driver of economic growth, expanding by an average 10% between 2006/07 and 2009/10. Growth in services continued to be led by the financial sector, and the trade, hotel, transport, and communications subsectors. The importance of tourism, though not apparent from GDP figures, is considerable. Tourism has good growth potential and the capacity to create backward and forward linkages and cross-sectoral synergies. Foreign direct investment of up to 100% is allowed for most services activities, except for financial services, where foreign ownership limits apply. However, specific market-access conditions or permits apply, which in some cases may be more restrictive than an explicit investment cap.

5. Inadequate infrastructure has become a critical constraint to India's economic development. To address this concern, the 11th Five Year Plan outlined a comprehensive strategy to improve both rural and urban infrastructure including electric power, roads, railways, ports, airports, telecommunications, irrigation, drinking water, sanitation, storage, and warehousing. However, public investment alone would likely be insufficient to address India's infrastructure needs, particularly considering India's quest for fiscal consolidation. Hence, an increase in private investment in infrastructure would also be necessary. Private sector investment, including from foreign sources, could play an important role not only in developing infrastructure, but also in

providing an opportunity for foreign investors. This would result in more stable, less volatile, capital inflows.

(2) AGRICULTURE

(i) General overview

6. Agriculture and related activities contributed 16.6% to GDP in 2009/10, down from 18% in 2006/07 (Table IV.1), but their economic, social, and political importance are considerably higher than their share of GDP. Agriculture employs some 58% of the population[1]; the productive structure is dominated by small-scale farmers working small to marginal landholdings, who account for more than one half of total Indian agricultural production. The agriculture sector has long been characterized by underemployment[2] Rural areas are still home to some 72% of India's population; a large percentage of which lives under the poverty line. Most farmers depend on rain-fed agriculture (55.7% of the area sown is dependent on rainfall) and forests for their livelihoods.[3]

Table IV.1
Selected indicators for agriculture, 2006-10

	2006/07	2007/08	2008/09	2009/10[a]
GDP in the agriculture sector[b], at constant 2004/05 prices (growth rate, %)	3.7	4.7	1.6	0.2
Contribution of the agriculture sector[b] to current GDP (%)	18.1	17.9	17.1	16.6
Employment[b] (% of total)	..	..	..	52.1
Agricultural production (million tonnes)				
Oilseeds	24.3	29.8	27.7	24.9
Pulses	14.2	14.8	14.6	14.6
Maize	15.1	19.0	19.7	16.7
Rice	93.4	96.7	99.2	89.1
Wheat	75.8	78.6	80.7	80.7
Sugarcane	355.5	348.2	285.0	277.8
Cotton (million bales of 170 kg each)	22.6	25.9	22.3	23.9
Exports				
Agricultural products (US$ million)	13,781.9	19,641.6	18,718.9	18,880.0
Leading products (% of total agricultural exports)				
Rice basmati	4.5	5.5	11.0	12.1
Marine products	12.8	8.8	8.2	11.0
Cotton raw, including waste	9.8	11.2	3.3	10.7
Oil meals	8.8	10.3	11.9	8.8
Meat and preparation	5.3	4.7	6.2	7.0
Agricultural products (% of total exports)	10.9	12.1	10.2	10.6
Agricultural products (growth rates based on exports in US$, %)	24.0	42.5	-4.7	0.9
Agricultural products (growth rates based on exports in rupees, %)	26.8	26.6	8.7	4.2
Imports				
Agricultural products (US$ million)	6,544.8	7,431.8	8,097.9	12,520.4
Leading products (% of total agricultural imports)				
Vegetable oils fixed (edible)	32.2	34.4	42.6	44.6
Pulses	13.1	18.0	16.8	16.3
Wood and wood products	15.8	18.2	16.2	12.6
Sugar	0.0	0.0	1.6	10.0
Cashews nuts	6.1	5.7	7.2	5.1
Agricultural products (% of total imports)	3.5	3.0	2.7	4.4
Agricultural products (growth rates based on imports in US$, %)	34.8	13.6	9.0	54.6
Agricultural products (growth rates based on imports in rupees, %)	37.9	0.9	24.3	59.7

Table IV.1 (cont'd)

[1] Employment in the agriculture sector as a share of total workers, as per Census 2001 (Ministry of Finance 2011a).
[2] Planning Commission (2008).
[3] World Bank online information, "India: Priorities for Agriculture and Rural Development". Viewed at: http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/EXTSAREGTOPAGRI/0,,contentMDK:20273764~menuPK:548214~pagePK:34004173~piPK:34003707~theSitePK:452766,00.html.

	2006/07	2007/08	2008/09	2009/10[a]
Agricultural trade balance (US$ million)	7,237.2	12,209.8	10,621.0	6,359.6

.. Not available.

a Estimates.
b Including agriculture, forestry, and fishing.

Source: Department of Agriculture and Co-operation (2010), *Agricultural Statistics at a Glance 2010,* 24 September. Viewed at: http://dacnet.nic.in/eands/latest_2006.htm; and data provided by the Indian authorities.

7. Economic growth in India's farm sector has lagged significantly behind that of other sectors reaching only 0.4% in 2009/10 (compared to 3.7% in 2006/07), far below India's overall annual economic growth rate of about 8% for the same year. The authorities attribute the sector's lower-than-expected growth rates to: fluctuating world prices for agricultural commodities and efforts to keep domestic prices low for consumers; slow development of new agricultural technology and inefficient use of available technology and inputs; rapid and widespread decline in the groundwater table and lack of rain during 2009-10, with a particularly adverse impact on small and marginal farmers; and lack of public and private investment in agriculture.

8. India places high priority on raising agricultural productivity as a means of reducing poverty. However, raising productivity would require a policy shift away from the existing subsidy-based protected regime that no longer appears to be sustainable.[4] To meet production, as well as other agricultural policy objectives (e.g. poverty alleviation and self-sufficiency), the Government plans to increase public expenditure, while also encouraging private investment. Increased expenditure will be focused on: increasing productivity, improving irrigation infrastructure and management of water resource, and building the necessary infrastructure in rural area (e.g. roads, electricity) to support the agriculture sector; promoting research and development and extension services; and developing a modern marketing system. Public sector funds allocated to agriculture and related activities during the 11th Five Year Plan, increased by 124.7% over the amount allocated during the 10th Five Year Plan.

9. India produces a wide variety of agricultural products and is a major global producer of grains (wheat, rice, and corn), dairy, fruits and vegetables, and livestock. Food self-sufficiency has been India's main agricultural policy objective since the Green Revolution in the 1960s. This objective has been largely met as India is, by and large, self-sufficient: domestic agriculture supplies some 97% of agricultural consumption. India's commodity production patterns focus on intensive farming with high-yield seeds, almost exclusively for food grains, specifically rice, wheat, corn (maize), and millet (a coarse grain).

10. India is a net exporter of agricultural products. Its agricultural support policies promote domestic production at the expense of imports. Agricultural imports are relatively low (4.4% of total merchandise trade) and are concentrated in a few commodities, including vegetable oils, pulses, and wood products. In 2009/10, agricultural exports accounted for 10.6% of total merchandise exports; they increased from US$13.7 billion in 2006/07 to US$18.8 billion in 2009/10 (9.3% of the foreign exchange).[5] Basmati rice has become India's leading agriculture export product, followed by marine products and cotton.

[4] World Bank online information, "India: Priorities for Agriculture and Rural Development". Viewed at: http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/EXTSAREGTOPAGRI/0,,contentMDK:20273764~menuPK:548214~pagePK:34004173~piPK:34003707~theSitePK:452766,00.html.

[5] Trade data on agriculture is different from trade data in Chapter I (Tables AI.1 and AI.2) because of difference in sources.

(ii) Agricultural policy objectives

11. Agricultural policy is formulated and implemented mainly by the Ministry of Agriculture at the central level with the assistance of other institutions (Table IV.2). India's current agricultural policy is outlined in the 11th Five Year Plan (2007–12), which identified three core policy objectives: food security, food self-sufficiency, and income support for farmers.[6] In order to meet these objectives, India actively intervenes in the agriculture sector, including in production, marketing, consumption, and international trade.

Table IV.2
Institutions involved in formulating and implementing agricultural policy, 2010

Institution	Function 2010
Ministry of Agriculture	Established in 1947 to formulate and implement policies and programmes to increase agriculture production and improve incomes of farm families
Commission for Agricultural Costs and Prices (CACP)	Established in 1965 to advise the Government on setting minimum support prices (MSPs) for different commodities (currently 25 essential commodities) and the mechanisms for implementing the MSPs
Food Corporation of India (FCI)	Set up in 1964 to implement the food policy, including procuring and maintaining buffer stocks of food grains and for distributing food grains through the public distribution system (PDS) and various welfare schemes for poverty alleviation
Central Warehousing Corporation	Set up in 1965 to support the FCI
National Agricultural Cooperative and Marketing Federation of India (NAFED)	Set up in 1958 to implement the Government's price support scheme
Cotton Corporation of India (CCI)	Procurement of other crops, e.g. cotton to undertake price support operations
Jute Corporation of India (JCI)	Procurement of other crops, e.g. cotton and jute to undertake price support operations
Ministry for Food Processing Industries	Set up in 1988 to implement infrastructure development and technological upgrade, develop backward linkages, enforce quality standards, and expand domestic and export markets for processed food products
Department of Animal Husbandry, Dairying, and Fisheries (Ministry of Agriculture)	Set up in 1991 and responsible for livestock production, preservation, and protection, and improvement of stocks; dairy development; the Delhi Milk Scheme and the National Dairy Development Board; and fishing; advises the state governments/union territories in policy/programme formulation for animal husbandry, dairy development, and fisheries
Plant Quarantine Division (Ministry of Agriculture)	Implements the Plant Quarantine (Regulation of Import into India) Order 2003 through Directorate of Plant Protection, Quarantine and Storage; conducts pest risk analysis for imports and exports of agricultural commodities
Directorate of Vanaspati, Vegetable Oils, and Fats under the Department of Food and Public Distribution (Ministry of Consumer Affairs, Food, and Public Distribution)	Set up in 1977 for the coordinated management of distribution, pricing, internal trade and commerce, administration of industries, and policy matters for vegetable oils, oilcakes and meals
Directorate of Marketing and Inspection under the Department of Agriculture and Cooperation (Ministry of Agriculture)	Set up in 1935 to implement agricultural marketing programmes and to bring integrated development of marketing of agricultural and allied produce

Source: Government of India Web Directory online information. Viewed at: http://goidirectory.nic.in/index.php; and information provided by the Indian authorities.

12. India's agricultural policies are consistent with the Government's long-standing policies of protecting domestic producers from foreign competition and consumers from domestic and global price fluctuations for food staples such as wheat, rice, and vegetable oils. The Government uses tariffs and non-tariff measures (NTMs) in its domestic policies to meet these objectives. The tension between the desire to raise food prices for the benefit of farmers and to lower them for the benefit of consumers leads India to intervene heavily in the farm sector with multiple policy instruments.

[6] These objectives should be viewed in the context of the significant challenges faced by India including: a history of food shortages, a large segment of the population dependent on the agriculture sector for its livelihood, and hundreds of millions of poor Indians who spend most of their incomes on food. More than one third of the population, mostly rural Indians, still lives on less than US$1 per day. Indian farmers are a politically powerful voting bloc that has a major influence on Indian domestic and international trade policies.

13. Balancing these conflicting objectives presents a major problem; this has been especially the case in the last few years when world food prices have increased significantly. Farmers would gain from higher prices and, to the extent to which low profitability is the cause of inadequate investment, the favourable shift in prices could boost domestic production and rural incomes. However, consumers are hurt by higher prices, and since most of the poor in India are net purchasers of food the authorities deem it necessary to protect them from any undue increases in food prices.

(a) Measures affecting imports

14. India's tariff policy focuses on supporting domestic agricultural policy objectives. Hence, average tariff protection for agricultural products (WTO definition) in 2010/11 was 33.2%, considerably above that of manufactured products at 8.9%. Some 57% of agricultural goods bear tariffs of 30%, and 13% bear tariffs above 30%. This contrasts with trade liberalization in manufacturing, which has been more noteworthy, with the reduction of "peak tariff " rates to 10% (with some exceptions), and the elimination of quantitative restrictions.[7]

15. Certain agricultural products that were previously subject to quantitative restrictions are now considered sensitive products and bear above-average tariffs.[8] Others, such as sugar (HS 1701) and some cereals[9], are considered sensitive because of employment and food security concerns and also bear high average applied tariff rates.

16. Price stability considerations and the importance of some agricultural products to Indian consumers are factors that contribute to significant differences in applied tariff rates for specific agricultural products within product groups. For example, among vegetable fats and oils, the tariff rate on crude palm oil is at 100%, while the tariff rate on edible margarine of vegetable oil is 7.5% and that on crude soybean was reduced to zero in 2009/10. Similarly, vegetable oils (HS 1507-HS 1515) have traditionally been protected by high tariffs; however, to fight inflation, tariff rates on some of these products have been reduced to an average of 9.7%. The average tariff rate on animal products is 30.8%, with most products subject to a 30% tariff. However, imported fresh and frozen chicken cuts, which compete with the large domestic industry, are subject to a 100% applied tariff rate. Applied tariff rates on specific grains also vary widely. For example, tariff rates on oats and rye are zero, while rates on other cereals, such as some types of rice and wheat (of seed quality), which are important for maintaining food self-sufficiency, are 80% and 50%, respectively.

17. Bound tariff rates for agricultural products range from 10%-300% and are substantially higher than those for manufactured goods (0%-150%). For many agricultural products, there is a wide spread between bound (10%-300%) and applied tariff rates (0%-150%), which allows the Government to modify its tariffs substantially while complying with its WTO commitments. India tends to modify tariffs frequently on food staples, such as wheat, pulses, rice, sugar, and vegetable oils. This variability, as well as the complex process for the notification of tariff-rate changes, creates uncertainty and acts as an impediment to trade.

18. Subsequent to Article XXVIII renegotiations in 2003, India introduced in its Schedule tariff rate quotas for four product groups (19 tariff lines at the HS eight-digit level according to the authorities): milk and milk powder; maize (corn); rape, colza, and mustard oil; and crude sunflower seed and safflower oil.[10] As of 2008/09, tariff quotas for crude sunflower-seed oil or safflower oil

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[7] Planning Commission (2008).
[8] Milk and milk products, fruits and vegetables, poultry, tea and coffee, spices, and some food grains.
[9] Durum wheat of seed quality (HS 1001.10.10): 50%; jawar, raji, and bajua (HS 1008.20): 70%; and broken rice (HS 1006.40): 80%.
[10] WTO document G/MA/TAR/RS/66, 1 May 2000.

have ceased to operate as the applied tariff on those products was reduced to 0% (Table III.6).[11] In 2009, India introduced a tariff quota for sugar (HS 1701.9100 or 1701.99.90) of 1 million tonnes with an in quota tariff rate of 0%.[12] Initially, sugar could only be imported through four companies but, according to the authorities, this restriction has been removed. In 2010, India increased the amount of milk that could be imported under the in-quota tariff rate from the original 10,000 tonnes to 30,000 tonnes, and introduced a tariff rate quota for butter (Table III.6). Imports under TRQs are allowed only through eligible entities or designated agencies. These entities and agencies need to apply to the DGFT prior or by 1 March of each financial year proceeding the quota year. The Exim Facilitation Committee in DGFT receives, evaluates and allots the TRQ. Imports have to be completed before 31 March of the financial year for which the quota is allocated.

19. According to India's latest notification to the WTO, submitted in January 2011, which covers the period up to 2007/08, tariff quotas continue to be allocated on a pro rata basis by the Directorate General Foreign Trade (DGFT), on request by designated agencies.[13] The authorities noted that the fill ratio of these quotas is low, apparently because of a lack of demand due to high international prices of these commodities (Table III.6).[14]

20. The authorities may impose import (and export) restrictions on security, self-sufficiency, and balance-of-payments reasons, and on health and moral grounds.[15] However, in practice, India links the use of import (and export) restrictions and licensing, and other non-tariff measures (NTMs) to domestic policies, for example, by relaxing NTMs when imports are required to alleviate food price inflation or food shortages. Import restrictions may also be imposed depending upon the import price. For instance in the case of betel nuts (whole, split, and ground) imports are restricted when the c.i.f. price is higher than a predetermined minimum price (Table III.10).[16]

21. Since the removal of most quantitative restrictions on imports in 2001, a mechanism has been set up to monitor imports of items considered to be sensitive. The number of sensitive items has increased since 2007, from 300 to some 415 items (Chapter III(2)(vi)). Monitored sensitive items include bamboos, cocoa, copra, cotton, milk and milk products, edible oils, food grains, fruits and vegetables, pulses, poultry, tea and coffee, spices, and sugar.[17]

[11] WTO document G/AG/N/IND/5, 7 March 2011.

[12] Customs Notification No. 84/2009, 31 July 2009. For Customs Notifications, see Central Board of Excise and Customs online information. Viewed at: http://cbec.gov.in/cae1-english.htm.

[13] The National Dairy Development Board (NDDB), the State Trading Corporation (STC), the National Cooperative Dairy Federation (NCDF), the National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED), the Minerals and Metals Trading Corporation (MMTC), the Projects and Equipment Corporation of India Ltd. (PEC), the Spices Trading Corporation Ltd. (STCL), the National Agricultural Cooperative Marketing Federation of India Ltd., the State Trading Corporation of India Ltd., PEC Ltd., and the National Dairy Development Board (WTO document G/AG/N/IND/6, 7 March 2011).

[14] WTO document G/AG/N/IND/5, 7 March 2011.

[15] Section 3 of the Foreign Trade (Development and Regulation) Act 1992 and through the issue of notifications under Section 11 of the Customs Act 1962.

[16] Betel nuts (HS 0802.90.11, HS 0802.90.12, and HS 0802.90.13).

[17] Department of Commerce online information, "Trade Statistics: Imports of Sensitive Items". Viewed at: http://commerce.nic.in/tradestats/import.asp.

22. India maintains state trading for certain agricultural goods (some cereals, copra, and coconut oil) to ensure, *inter alia*, a "fair" return to farmers as well as food security and the supply of fertilizer to farmers (Table III.11).[18]

23. Imports of animal products into India require sanitary import permits issued by the Department of Animal Husbandry, Dairy and Fisheries; permits must be obtained prior to shipment from the country of origin. The Department approves or rejects the application based on an import risk analysis on a case-by-case basis. Sanitary import permits are not import licences, they are certificates verifying that India's sanitary requirements are fulfilled. Some imports of animal products also require an import licence issued by the Director General of Foreign Trade (Chapter III(2)(vi)(b)). Imports of animal and fish products are only allowed through designated ports where animal quarantine and certification services exist.

24. Imports of plants and plant material must be accompanied by a phytosanitary certificate issued by the national plant protection organization of the exporting country and an import permit issued by the officer in charge of the plant quarantine station. The Plant Quarantine (PQ) (Regulation of Import into India) Order 2003 lists in its Schedules the specific import requirements. Products listed in Schedule VII can be imported without import permit but may be required to fulfil other conditions such as fumigation. Other phytosanitary requirements covering some 980 products are listed in Schedules V, VI, and VII (Table III.14). Schedule IV lists all the plant species that are prohibited for importation on phytosanitary grounds. Imports of plant and plant products may only enter the Indian territory through designated ports.

(b) Measures affecting exports

25. The 11th Five Year Plan placed special emphasis on promoting production and exports of commercial crops and agri-based processed products. Plans to promote exports include, *inter alia*, the revitalization of plantations, and the provision of tax incentives.[19] However, this would require the adoption of a less controlled, more long-term and stable agriculture policy, instead of ad hoc reactions to short-term price fluctuations, such as export bans, which have often been at the cost of farmers. According to the authorities further development of India's new agricultural commodities futures markets would also allow for better transmission of price signals and management of risks.[20]

26. India imposes export restrictions and prohibitions mainly for environmental, food security, marketing, pricing, and domestic supply reasons, and to comply with international treaties. Since 2007, some agricultural products have been subject to export prohibitions, including non-basmati rice, wheat, pulses, edible oils, milk powder, casein and casein derivatives, and onions (Tables II.4 and AIII.5). Goods subject to export restrictions and quotas must also be accompanied by licences from the DGFT and, when necessary, by other permits. For instance exports of cotton require in addition to an export licence an export authorization registration certificate (EARC).[21] Export quotas apply to organic non-basmati rice and organic wheat. Export prohibitions and export quotas are notified annually; they are usually in place for a specific period, during which they may be subject to changes (Chapter III(3)(v)). These changes diminish the predictability of the regime. Minimum export prices

[18] Agricultural products subject to state trading are wheat, rye, oats, maize, rice, grain sorghum, buckwheat, millet, canary seed, jawar, bajra, ragi, other cereals, copra, crude oil (coconut oil and its fractions), and other (coconut oil and its fractions).

[19] Department of Commerce (2011); and Planning Commission (2008).

[20] Department of Commerce (2011); and Planning Commission (2008).

[21] EARCs are issued by the Textile Commissioner of India/Directorate General of Foreign Trade (as of December 2010) only when the domestic supply of cotton is ensured.

are also maintained under the Foreign Trade Policy 2009–14 to control prices and availability in the domestic market (Chapter III(3)(iv)).

27. In addition, to these measures, India imposes export taxes, which are used to, *inter alia*, ensure domestic supply of raw materials for higher-value-added industries; promote further processing of natural resources, ensure an "adequate" domestic price, and preserve natural resources. Export taxes are sometimes used in combination with other measures to attain short-term goals. For instance, in April 2010, India introduced export licensing/EARC requirements for six months on raw cotton and cotton waste, in addition to export taxes, with the purpose of ensuring adequate domestic supply and containing cotton price increases in the domestic market (Chapter III(3)(v)).

28. State trading is maintained on exports with the purpose of ensuring better marketing and prices of agricultural and minor forestry products grown by small farmers or poor tribes, as well as to prevent fluctuations in domestic prices. Since 2007, sugar under preferential quotas, and all varieties of onions have been exported through state trading, except during December 2010 to February 2011 when exports were prohibited.[22] Exports of sugar (by state trading enterprises), and wheat products (HS 1001) were subject to export quotas during the period under review; these were set by the DGFT.[23] Exports of onions by state trading enterprises are not subject to ceilings but to minimum export prices notified by the DGFT (Chapter III(3)(iv) and Tables II.4 and III.17).

29. India's last notification of export subsidies, made to the WTO in 2002, covered 1996 to 2001.[24]

30. In addition to the agri-export zones (AEZs) and the duty drawback system, India has a number of export incentive schemes, some of which are contingent on value addition and export obligation. The product coverage and the level of concessions of some of these schemes changed during the period under review. India's exports concession schemes include: (i) duty exemption schemes, which allow exporters to import inputs (including fuel and oil) duty free; (ii) duty remission schemes, entitling exporters to a refund of customs duty on the inputs used to produce exports (post-export replenishment/remission of duty paid on inputs); (iii) reward schemes granting exporters duty credits; (iv) Special Agricultural and Village Industry Scheme (Vishesh Krishi and Gram Udyog Yojana) to compensate freight cost and promote exports of agricultural and other forestry products; and (iv) an agri-infrastructure incentive scheme, whereby exporters are granted duty credits when importing, *inter alia*, storage, packing, and transportation equipment for exports of live animals and animal products, fats and oils, prepared foodstuffs, beverages, and tobacco (Table AIII.6).

(c) Internal measures

31. Agriculture is under the purview of the state governments in India. However, the Central Government supports the state governments in their efforts to increase agricultural production, enhance productivity, and explore the sector's untapped potential. This support is granted through the implementation of centrally funded general agricultural support schemes and programmes (Table IV.3). India also supports the farm sector through output price support programmes, input support programmes, and credit and insurance schemes. Output price support programmes consist of minimum support prices (MSPs) for certain staple crops produced in India. Input support programmes focus primarily on fertilizers, rates for irrigation water, electricity rates, diesel prices, and

[22] Exports of onions were prohibited or restricted from 22 December 2010 to 18 February 2011 (Table II.4).

[23] Exports of wheat are at present prohibited. However, during July 2009 to March 2011 an export quota of 650,000 tonnes was established (information provided by the authorities).

[24] WTO document G/AG/N/IND/3, 1 March 2002.

seeds. Credit schemes comprise a number of government programmes to improve the flow of credit to agriculture and to lower the cost of borrowing for farmers (via below-market loan rates or debt write-offs).

Table IV.3
Agriculture sector schemes/programmes, 2011

Programme/Scheme	Budget allocation[a]	Purpose
National Mission for Sustainable Agriculture	No budget allocation[b]	Seeks to address issues of "sustainable agriculture" in the context of climate change by devising appropriate strategies for ensuring food security, enhancing livelihood opportunities, and contributing to economic stability at national level
Macro Management of Agriculture	Rs 55 billion	Launched in 2000-01: seeks to supplement and complement the efforts of the states towards enhancement of agricultural production and productivity (through soil nutrition, pest management, and watershed development); assistance provided in the form of grants to the states/union territories on 90:10 basis, except for the north-eastern states/union territories where the Central share is 100%
National Food Security Mission (NFSM)	Rs 48.2 billion	Launched in 2007-08: seeks to increase production of rice, wheat, and pulses by 10 million tonnes, 8 million tonnes, and 2 million tonnes, respectively, by the end of the 11th Five-Year Plan; assistance in the form of grants
Rashtriya Krishi Vikas Yojana (RKVY)	Rs 250 billion	Launched in 2007-08: seeks to promote public investment by the State as to achieve a 4% growth rate in agriculture and allied sectors during the 11th Five-Year Plan; assistance in the form of grants to the states
Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)	Rs 14.7 trillion[c]	Implemented in 2006 to guarantee wage employment to rural households; the programme, stipulated in the Act, is being implemented in 625 rural districts
Integrated Scheme of Oilseeds, Pulses, Oil Palm, and Maize (ISOPOM)	Rs 1.5 billion	Launched in 2004-05: seeks to promote crop diversification; assistance provided for purchase of seeds, plant protection chemicals and equipment, and other materials
Drought management	Financed through the National Calamity Relief Fund[d]	Assistance provided in emergency situations such as droughts
Centrally sponsored National Mission on Micro Irrigation (NMMI)	Rs 34 billion	Launched in 2010/11: seeks to enhance efficient use of water through drip and sprinkler irrigation systems in all states and union territories for horticulture and agricultural crops

a Information provided by the Indian authorities.
b The programme has not been implemented.
c For the 11th Five-Year Plan 2007/12.
d Outlay from the 11th Five-Year Plan.

Source: Ministry of Finance (2011), *Economic Survey 2010-2011*. Viewed at: http://indiabudget.nic.in; and information provided by the Indian authorities.

32. India's latest notification to the WTO on domestic support commitments in 2011, covered 1998/99 to 2003/04.[25]

33. Direct or explicit subsidies to agriculture as reported in the Central Government's annual Budget amounted to Rs 1,413.5 billion (2.2% of GDP) in 2009/10, up from Rs 571.3 billion (1.3% of GDP) in 2006/07.

34. The bulk of India's explicit subsidies are aimed mainly at promoting food security and reducing poverty. As a result, most of the outlays are allocated to food and fertilizers (Chart III.6). Food subsidies are provided by the Department of Food and Public Distribution to meet the difference between actual prices and the central issue prices fixed under the Targeted Public Distribution System (TPDS) and other welfare schemes (Chapter III(4)(iv)). The Central Government also provides a

[25] WTO document G/AG/N/IND/7, 9 June 2011.

subsidy to the Food Corporation of India to keep buffer stocks of wheat and rice as a food security measure. "Other subsidies", which accounted for 3% of the total explicit subsidies in 2010/11, include market intervention and price support schemes for agricultural products.

35. The Government maintains minimum support prices (MSPs) for major agricultural commodities. MSP levels and the products subject to MSPs are reviewed annually. MSPs are announced prior to each planting season. In 2009/10, India maintained MSPs on 25 crops.[26] MSPs are fixed by the Government following the recommendations of the Commission for Agricultural Costs and Prices (CACP), which takes into takes into account several factors to fix them.[27] MSPs aim at covering the actual expenses incurred by the farmer in cash and kind, including rent paid for leased land and imputed value of wages of family labour, rent for owned land and interest on fixed capital. Despite differences in cost of production across states, MSPs are uniform throughout the country.

36. Farmers are guaranteed the MSP through the Price Support Scheme (PSS): when prices of the relevant commodities fall below the MSP, government-designated agencies intervene in the market to purchase at the MSP any amount of produce that farmers offer. Designated agencies under the PSS purchase specific products.[28] There is an additional scheme (the Market Intervention Scheme (MIS)) that covers perishables not under the MSPs. Under the MIS, the National Agricultural Cooperative Marketing Federation of India Ltd. (NAFED) and other State designated agencies purchase perishables at a market intervention price (MIP) when the prices decline because of a bumper crop, and distribute the products.[29]

37. In 2009, the statutory minimum price (SMP) for sugarcane was replaced by the fair and remunerative price (FRP)[30]; a minimum price set at the central level, below which no sugar mill may purchase sugarcane from a farmer.[31] State governments also set a state advisory price (SAP) for sugarcane. If the SAP is higher than the FRP, the state government bears the loss.[32] In addition to the price intervention, a quota of the sugar production (at present 10%), referred to as "levy sugar", is earmarked for distribution under the Targeted Public Distribution System (TPDS).[33] The remaining

[26] In 2009/10, India maintained MSPs on 25 crops, namely paddy, jowar, bajra, maize, ragi, arhar (tur), moong, urad, cotton, groundnut in shell, sunflower seed, soybean, sesamum, nigerseed, wheat, barley, gram, masur (lentils), rapeseed/mustard, safflower, toria, copra, de husked coconut, jute, and tobacco.

[27] These variables include: the cost of production, changes in input prices, trends in market prices, inter-crop price parity, effect on industrial cost structure, effect on cost of living, effect on general price level, international prices, and parity between prices paid and prices received by the farmers and the effect on issue prices and implications for subsidy.

[28] The Food Corporation of India (FCI) and the state agency under the TPDS are the designated agency to distribute wheat, rice and coarse grains, the National Agricultural Cooperative Marketing Federation of India (NAFED), Central Warehousing Corporation (CWC) and National Cooperative Consumer Federation of India Ltd. (NCCF) for pulses and oilseeds, the Cotton Corporation of India and NAFED for cotton, and the Jute Corporation of India for jute.

[29] Since the inception of the MIS there have been few interventions (Information provided by the authorities).

[30] Sugarcane Control (Amendment) Order 2009.

[31] Other factors taken into account to fix the FRP include: the cost of production of sugarcane; the return that growers would have if planting alternative crops; the general trend of prices of agricultural commodities; supply of sugar to consumers at a "fair" price; price of refined sugar (made with sugarcane) at the mill; earnings made from selling by products (e.g. molasses, bagasse, and pressed mud); and a "reasonable" profit margin for sugarcane producers to also account for risk.

[32] PRS Legislative Research (2009).

[33] Department of Food and Public Distribution online information, "Sugar: sugar and edible oil: intimation of levy sugar". Viewed at: http://fcamin.nic.in/dfpd/EventListing.asp?Section=Sugar and Edible Oil&id_pk=100&ParentID=0.

sugar may be sold under the monthly regulated release system. Exports of sugar are also controlled through a quota system.

38. Under the Targeted Public Distribution System (TPDS), which focuses on reducing poverty, the consumer price of some essential commodities, are controlled to subsidize consumers.[34] These products are distributed by the state governments/UTs through the fair price shops/kerosene oil depots. Even though the market price of wheat and rice has increased, the price for rice and wheat under the TPDS has not been revised since 2002.[35] As a result, the amount spent on subsidizing food has increased substantially from Rs 238 billion in 2006/07 to Rs 698 billion in 20010/11.[36]

39. India continues to subsidize indigenous and imported (urea) fertilizers through price controls. The scheme was introduced after the prices of phosphatic and potassic fertilizers were decontrolled, to keep the price of fertilizers low, and to give producers a "reasonable" return on investment. However, this policy has resulted in an excessive use of nitrogenous fertilizer which depletes the soil of other micronutrients reducing soil productivity over time.[37]

40. The New Price Scheme (NPS) for urea, in place since 2003, initially expected to be phased out by 31 March 2010, has been extended indefinitely.[38] Although the price of urea continues to be controlled, price controls on other fertilizers were eliminated in 2010 and replaced by a "nutrient-based subsidy policy", implemented as of 1 April 2010, which applies to phosphatic and potassic fertilizers for agricultural use including imports. Under this new scheme , manufacturers fix prices and the Government provides a fix annual subsidy. The subsidy granted to central public sector undertakings and to private firms producing fertilizers is equivalent.

41. In addition to the subsidy on fertilizer, India's farmers benefit from input support for irrigation water, electricity, diesel, and seeds. These subsidies are financed by the central and state governments (water and electricity). The diesel subsidy is financed mainly by the Central Government while the subsidy on seeds is shared by the central and state governments. In general, during the period under review, budgetary support to input subsidies has increased. Subsidies granted to marginal farmers in the form of, *inter alia*, price support and insurance support schemes have recorded the highest increase (Table IV.4 and Chart III.6).

42. Electricity subsidies for farmers are paid from the state budgets. Farmers pay a fixed charge for electricity, which in most states is a lump sum based on the declared horsepower of irrigation pumps. As this does not reflect the actual cost of electricity there is overuse of electricity.[39] No data are available on the actual amount of the electricity subsidy allocated to agriculture. Irrigation water subsidies are the third largest component of budgetary support for agriculture inputs.

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[34] These commodities are: wheat, rice, coarse grains, sugar and kerosene.

[35] For wheat it remains at Rs 4.15/kg for consumers Below Poverty Line and Rs 2/kg for Antyodaya Anna Yojana (AAY) (i.e. the poorest of the poor); and for rice, it is Rs 5.65/kg for BPL and Rs 3/kg for AAY (Information provided by the authorities).

[36] Ministry of Finance (2011a).

[37] Planning Commission (2008).

[38] The New Price Scheme (NPS) replaced the Retentions Price Scheme (RPS) in 2003.

[39] OECD (2009a), Chapter 5: India.

Table IV.4
Subsidies in agriculture inputs, 2006-10
(Rs billion)

	2006/07	2007/08	2008/09	2009/10
Public investment in agriculture and allied sector	229.78	230.40	244.52	..
Total subsidies	**676.93**	**877.08**	**1,609.17**	**529.80**
Fertilizer	262.22	324.90	766.03	529.80
Electricity[a]	197.29	206.61	274.89	..
Irrigation	169.78	194.57	236.65	..
Other[b]	47.64	151.00	331.60	..

.. Not available.

a Includes all subsidies to electricity boards and corporations. Separate estimates of the electricity subsidy to the agriculture sector are not available.

b Subsidies to marginal farmers and to farmers' cooperative societies in the form of seeds, development of oilseeds, pulses, cotton, rice, maize, and crop insurance schemes, price support schemes, etc.

Source: Department of Agriculture and Cooperation (2010), *Agricultural Statistics At a Glance 2010*, 24 September. Viewed at: http://agricoop.nic.in/Agristatistics.htm; and information provided by the Indian authorities.

43. The Central Government has put in place programmes to address the use of low-quality seeds by farmers. These include the Indian Seed Programme and Central-sector Development and Strengthening of Infrastructure Facilities for Production and Distribution of Quality Seeds scheme, to supply quality seeds at "affordable prices". To promote seed production in the private sector, a credit-linked back-ended capital subsidy is granted to develop infrastructure to produce seeds. Under this subsidy if the developer has taken a loan, once the project is finished 25% of the project cost (subject to a maximum of Rs 2.5 million per unit) does not need to be repaid. Assistance is also provided to the states/UTs and state seeds corporations for creation and operation of seed-processing plants.

44. India sets targets for priority-sector lending to ensure that banks provide credit to specific priority sectors. Domestic and foreign commercial banks are required to reserve a percentage of their adjusted net bank credit (ANBC) or credit equivalent amount of off-balance-sheet exposure (OBSE), whichever is higher, for priority sectors. Domestic banks must reserve 40% of their ANBC/OBSE to lend to priority sectors, of which 18% must be channelled to agriculture, and foreign banks 32% of their ANBC/credit equivalent of OBSE to priority sectors, but with no requirement to lend to the agriculture sector (Table III.24).

45. In addition to credit set-asides, India has implemented programmes to ensure access to credit in agriculture and allied activities, including subsidizing commercial banks, including rural regional banks RBs, rehabilitation packages for distressed farmers (e.g. debt write-offs for farmers in distress and farmers in arrears), and a One Time Settlement (OTS) Scheme for small and marginal farmers and relief to farmers indebted to non-institutional lenders, such as money lenders.

46. Rural cooperative banks play an important role in channelling credit to the rural sector, and are considered by the Government to be a key instrument of financial inclusion in reaching out to the rural areas. Therefore, subsidies are provided to regional rural banks, cooperative banks, and public sector banks to provide short-term credit to farmers at preferential rates (section (3)(ii)(a)). For example, in 2009/10, the Central Government provided a subsidy of 2 percentage points on its own loans to public sector banks, to provide short-term production credit to farmers, of up to Rs 300,000 per farmer, at an interest rate of 7%.[40] If farmers reimbursed their loans within one year, an "additional subsidy" was granted to public banks so that they would reduce the interest rate by a

[40] The nominal prime lending rate was 11%-12% for 2009/10 (Chapter I) (Reserve Bank of India, 2010c).

further 1 percentage point, bringing the interest rate down to 6%. In 2010/11, this "additional subsidy" was increased to 2 percentage points, lowering the effectively paid interest rate by farmer to 5%.[41] Apart from this subsidy granted by the Central Government, farmers may benefit from other subsidized interest rate offered at the state level.

47. The National Bank for Agriculture and Rural Development (NABARD) has been designated as the implementing agency for the Short-term Rural Cooperative Credit Structure package. The purpose of the package is, *inter alia*, the recapitalization of the primary agricultural cooperative societies (PACS) and the central cooperative banks (CCBs). States are required to sign memorandums of understanding (MoUs) with the Government of India and NABARD, committing to implementation of the legal, institutional, and other reforms as envisaged in the package. To date, 25 states have signed such MoUs. As of March 2011, Rs 87 billion had been released by NABARD for recapitalization of 53,380 PACS.[42]

48. NABARD also administers funds that ensure the availability of credit to farmers. In 2010/11, NABARD disbursed Rs 120.6 billion through the Rural Infrastructure Development Fund (RIDF) to finance irrigation, rural roads and bridges, health and education, soil conservation, drinking water schemes, flood protection and forest management projects.[43] The RIDF was set up with contributions from commercial banks: commercial banks deposit the shortfall in agriculture/priority sector lending with NABARD as part of their contribution to the RIDF.[44]

49. In 2008, India implemented the Agricultural Debt Waiver and Debt Relief Scheme, under which some 36.9 million farmers have had their debts waived or have been granted some kind of relief.[45] According to the authorities this programme is not in force.

50. The Agriculture Insurance Company of India Ltd. (AICI) was established in 2002 to implement the Government's National Agriculture Insurance Scheme (NAIS).[46] The main objective of the NAIS is to protect farmers against crop losses due to natural calamities. NAIS has been in operation since 1999/00 and is being implemented by 23 states and 2 UTs. The scheme is available to farmers irrespective of the size of their holding. It covers all food crops, oilseeds, and annual commercial/horticultural crops in respect of which past yield data are available for at least ten years, since premiums are based on these data. Premium rates are high in the case of groundnut and cotton (risky crops) because of high variation in yield, whereas the rates for sugarcane and wheat are comparatively low since these are stable crops. The implementing agency must bear all normal losses for annual commercial/horticulture crops, i.e. claims up to 150% of premiums in the first three years and 200% of premiums thereafter. Small and marginal farmers are entitled to a subsidy of 50% of the premium charged. The scheme provides for compulsory coverage in respect of farmers that have taken loans, whereas farmers with no debts may opt for insurance cover on a voluntary basis. Other insurance schemes are under implementation, including the Pilot Modified NAIS (MNAIS), the Pilot Weather Based Crop Insurance Scheme (WBCIS), and the Pilot Coconut Palm, Insurance Scheme (CPIS).

[41] Ministry of Finance (2009) and (2010c).

[42] Ministry of Finance (2011a).

[43] Information provided by the authorities.

[44] NABARD online information, "Credit Functions: Direct Credit". Viewed at: http://www.nabard.org/creditfunctions/directcredit.asp.

[45] Department of Agriculture (undated).

[46] The Agriculture Insurance Company of India Ltd. (AICI) is registered with the Insurance Regulatory and Development Authority (IRDA).

(3) SERVICES

(i) Overview

51. In 2009/10, the services sector accounted for about 56% of GDP, up from 53% in 2006/07. The sector grew at an average annual rate of 10% per year in 2006/07-2009/10, faster than average GDP growth, and contributed nearly 60% of the overall growth of the economy. The leading subsectors in terms of contribution to total value added in 2009/10 were financial services, commerce, and communications.

52. Inadequate infrastructure has become a critical constraint to India's development. To address this concern, the 11th Five-Year Plan outlined a comprehensive strategy to improve both rural and urban infrastructure, including electric power, roads, railways, ports, airports, telecommunications, irrigation, drinking water, sanitation, storage, and warehousing. However, public investment alone would probably be insufficient to address India's infrastructure needs, particularly considering India's quest for fiscal consolidation. Hence, an increase in private investment in infrastructure would be necessary to attain India's goal. Private sector investment, including from foreign sources, could play an important role not only in developing infrastructure India, but would also provide an opportunity for foreign investors and would result in more stable, less volatile, capital inflows.

53. Tourism is an important subsector, though this is not apparent from GDP figures. It has a good growth potential and, this through its backward and forward linkages can stimulate other economic sectors like agriculture, horticulture, handicrafts, transport, and construction.

54. During the period under review, India's exports of services grew at over 13.5% per annum. India is a net exporter of services (Chart IV.1); its services balance showed a surplus of US$35,726 million in 2009/10 (equivalent to 2.7% of GDP), US$6,257 million higher than in 2006/07. India is a leading exporter of computer and related services, including software installation and data processing, and a major supplier of back-office processing services, such as abstracting and indexing, data processing, legal transcription, telemarketing, and website design.

55. India took part in the negotiations on financial services and telecommunications and accepted the Fifth and Fourth Protocols to the GATS. India's Schedule of Specific Commitments under the GATS is limited to commitments in 6 of the 12 services categories. India accepted specific commitments in the areas of business services, communications services, construction-related and engineering services, financial services, health-related and social services, and tourism services.[47] As regards horizontal commitments, India introduced a series of requirements on entry and temporary stays of natural persons such as business visitors and intra-corporate transferees. India's Schedule of MFN horizontal exemptions include exemptions on telecommunications services affecting neighbouring countries indefinitely; audio-visual services; shipping; and recreational services.

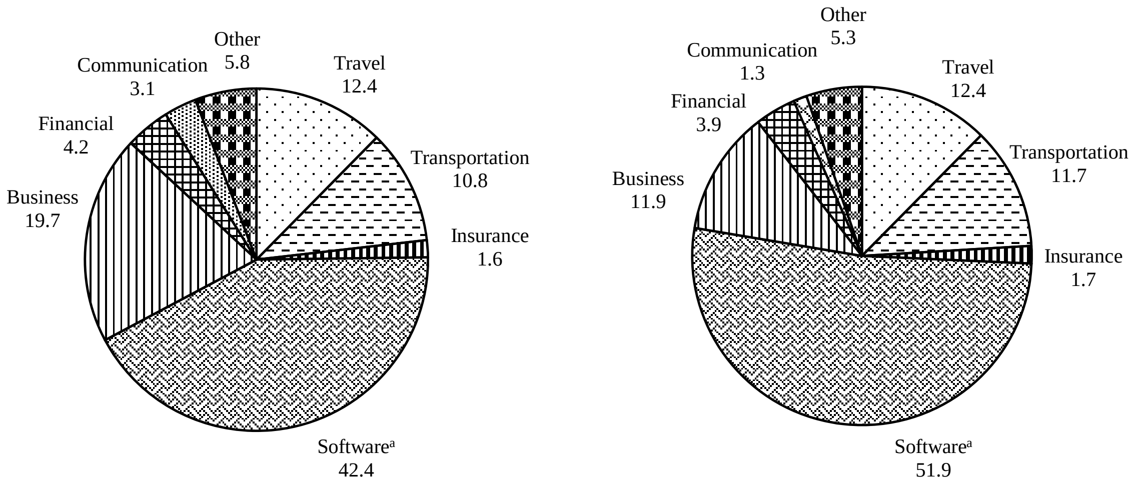
[47] WTO document S/DCS/W/IND, 2 April 2003.

Chart IV.1
Trade in services, 2006/07 and 2009/10

Per cent

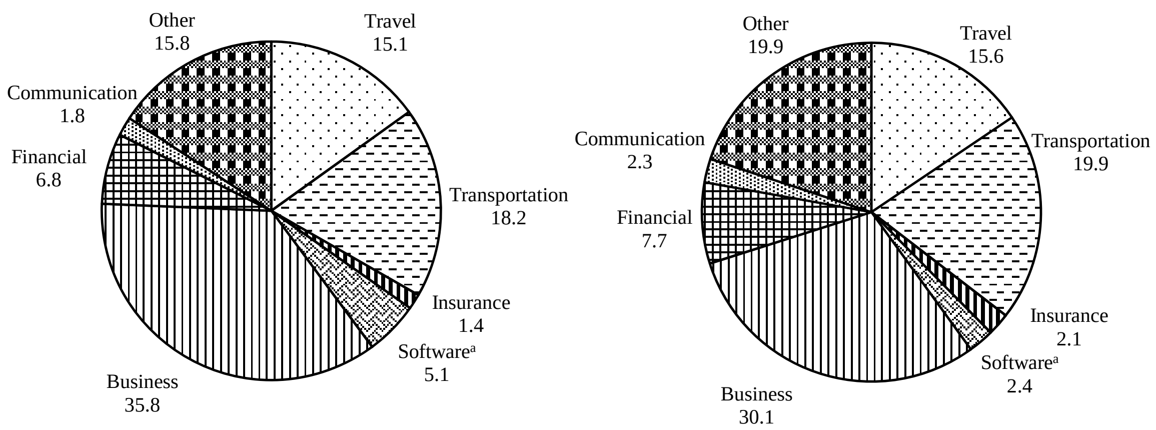
2006/07	2009/10

(a) Exports



Total: US$73,780 million **Total: US$95,759 million**

(b) Imports



Total: US$44,311 million **Total: US$60,033 million**

a **Software services include computer services and information technology enabled services (ITES)/ business process outsourcing (BPO).**

***Source*: Reserve Bank of India (2011), *Statistical Bulletin*, February. Viewed at: http://www.rbi.org.in/.**

(ii) Financial services

56. Financial services (including banking and insurance) accounted for 7.9% of GDP in 2009/10, up from 6.7% in 2006/07. In 2009/10, in contrast with previous fiscal years, India ran a trade deficit in financial services, as imports increased substantially faster than exports; exports totalled US$3.74 billion and imports US$4.64 billion. The authorities have noted that the increase in imports mainly reflects higher costs of imported financial services as a consequence of the global financial crisis.[48]

57. India's legal framework for the financial sector has been updated and strengthened since its last Review; however, part of this legislation has yet to enter into force. The sector is regulated by the Reserve Bank of India (RBI) (banks and related financial institutions), the Insurance Regulatory and Development Authority (IRDA) (insurance companies), and the Securities and Exchange Board of India (SEBI) (securities and stock exchange activities).

58. Financial services, particularly banking and insurance, continue to be dominated by state-owned companies. Measures have been adopted to encourage competition from the private sector, and restrictions on foreign banks' ownership and establishment conditions have been relaxed. Efforts have also been made to improve prudential regulations and, in general, banks are soundly capitalized. Plans to recapitalize rural regional banks have been devised, and their past poor performance has improved.

(a) Banking

Market structure and performance

59. India's banking sector comprises a relatively small number of commercial banks compared with other types of financial institution. Apart from commercial banks and cooperative credit institutions, the financial system consists of a wide variety of non-banking financial institutions (NBFIs). As at 31 March 2010, there were 81 scheduled commercial banks (excluding regional rural banks (RRBs)), 1,674 urban cooperative banks (UCBs), 5 development finance institutions (DFIs), 12,662 non-banking financial companies (NBFCs), and 18 primary dealers (PDs) (Table AIV.1).[49] All these institutions are supervised by the Reserve Bank of India (RBI), through the Board for Financial Supervision. In general, with the exception of primary dealers, there has been a consolidation of financial institutions since 2007, with fewer institutions in all categories. There are also 82 RRBs supervised by the National Bank for Agriculture and Rural Development (NABARD).[50]

60. India's banking sector continues to be dominated by public sector banks (PSBs), which account for approximately 73.7% of the sector's total assets. At end-March 2010, of the 81 scheduled commercial banks, there were 27 PSBs (19 nationalized banks, the State Bank of India (SBI), 6 SBI associate banks and the Industrial Development Bank of India (IDBI)), 22 private sector banks, and 32 foreign banks (Table AIV.1). An important issue during the period under review was the recapitalization of PSBs, for which the 2010/11 Budget provided Rs 165 billion to help banks maintain a Tier I capital adequacy ratio in excess of 8%. The authorities have noted that, though government shareholding in all public sector banks remained above 51% during 2009/10, and the

[48] The authorities have noted that, the rapid increase in imports of financial services in 2009/10 was particularly on account of higher payments for bank, collection and letter of credit charges, cancellation of forward contracts, commissions on financial leasing, brokerage fees, underwriting commissions, charges on operation and regulatory fees, custodial services, and depository services fees.

[49] Information provided by the Reserve Bank of India; and Reserve Bank of India (2010a).

[50] Reserve Bank of India (2006).

average was 58%, some PSBs had been very close to the 51% threshold.[51] This raises the issue of the trade-off between recapitalization of PSBs, in order to ensure continued credit creation by public sector banks, and maintaining the statutory floor of 51% for government ownership.

61. Foreign investment participation is allowed in both public and private sector banks, up to a threshold of 74% for all forms of foreign investment (i.e. FDI and FII) in private banks, and of 20% in public banks. In March 2010, 9 PSBs had foreign capital of up to 10%, and 11 had foreign capital between 10% and 20%. These public banks also have domestic private shareholding; for 11 of them, total private sector participation (foreign and domestic) was between 40% and 49%.[52]

62. Commercial banks (domestic and foreign) are required to allocate a certain percentage of net lending (40% for domestic banks and 32% for foreign banks) to priority sectors, including agriculture, micro and small enterprises, and exports (Table III.24). Of the 40% to be allocated by domestic banks, 18 percentage points must be allocated to agriculture; 10% of credit must be allocated to weaker sections.[53] For foreign banks, of the 32% to be allocated to priority sectors, at least 10% must be for small-scale industries, and 12% for exports. Although credit assignment to specified activities, as the authorities note, has social purposes and seeks financial inclusion, it may also have an impact on the overall cost of financial intermediation, as it reduces the amount of credit allocated to the more profitable sectors, and hence increases overall interest rates, as banks need to recover costs. The policy of credit allocation for specified purposes may also result in increased financial risk, and lead in some cases to difficulties in recovering assets.

63. During most of the period under review, and against the backdrop of fast economic growth, bank credit continued to expand rapidly; as a result, its share of GDP increased, a sign of a rising degree of financial intermediation. Bank credit more than doubled between 2005/06 and 2009/10 to reach Rs 35 trillion or 54.5% of GDP, up from 48% reported in the previous Review. The total deposits of scheduled commercial banks more than doubled, representing 74% of GDP in FY 2009/10. Credit to manufacturing accounted for 37.5% of total credit in 2009/10, followed by services (20.8%), real estate (16.6%), and agriculture (11.9%).

64. Scheduled commercial banks remained well capitalized in the midst of the financial crisis. The minimum capital to risk-weighted assets ratio (CRAR) requirement for banks regulated by the RBI is 9%. At end-March 2010, the average CRAR for commercial banks was 14.5%, higher than in March 2009 and March 2008. The quality of assets of Indian banks remained stable during the financial crisis and its aftermath. During the crisis year 2008-09, the gross non-performing assets (NPAs) ratio remained unchanged for scheduled commercial banks, at some 2.25%, increasing only slightly to 2.39% in 2009-10. The net NPAs ratio of scheduled commercial banks increased from 1.05% at end-March 2009 to 1.12% at end-March 2010 (Table IV.5).

65. The RBI has paid particular attention to fostering financial inclusion to overcome the still low levels of financial penetration and deepening in India. To this end, the RBI introduced a scheme to allow the opening of accounts with no pre-conditions and a low minimum balance requirement (no-frills accounts). Recent data show that progress has been made, and that the number of no-frills accounts opened has increased. Micro-finance has been an important component of the financial inclusion process in India. To this end, the RBI has promoted the Self-Help Group-Bank Linkage Programme (SBLP) as a source of micro-finance. Although ATM penetration remains low, the authorities noted that banks are seeking to increase their number.

[51] Reserve Bank of India (2010d).
[52] Reserve Bank of India (2010d).
[53] This 10% may be a part or not of the 40% allocated to priority sectors.

Table IV.5
Trends in the banking sector's gross loans and deposits and prudential indicators, 2006-10
(Rs million and %)

	2006	2007	2008	2009	2010
Assets	2,785,863	3,459,961	4,326,166	5,241,330	6,025,141
Return on assets (%)	1.01	1.05	1.12	1.13	1.05
CRAR (%)	12.32	12.28	13.01	13.98	14.58
Net NPA ratio (%)	1.22	1.02	1.00	1.05	1.12
Total loans	1,516,811	1,981,236	2,476,936	3,000,906	3,497,054
US$ equivalent (million)	33,479	47,915	56,935	61,996	76,478
Loans by economic sector (% of total loans)					
Agriculture	11.47	11.63	11.12	11.29	11.88
Industry	36.29	35.20	35.00	35.14	37.45
Services	21.11	21.24	22.33	21.55	20.76
Real estate	17.28	18.82	18.44	17.50	16.58
Total deposits	2,164,681	2,696,936	3,320,061	4,063,203	4,752,456
US$ equivalent (million)	45,778	65,224	76,314	83,942	103,933

Source: Information provided by the Indian authorities.

Legal and regulatory framework

Commercial banks

66. The Reserve Bank of India (RBI) regulates the banking sector, in accordance with the Reserve Bank of India Act 1934. The RBI performs its financial supervisory functions under the guidance of the Board for Financial Supervision (BFS), constituted in November 1994 as a committee of the Central Board of Directors and chaired by the RBI Governor. The BFS oversees the consolidated supervision of the financial sector, comprising commercial banks, financial institutions, and non-banking finance companies, and provides guidelines on regulatory and supervisory issues. The authorities have noted that the BFS' current focus is on strengthening the supervision of financial institutions, and improving consolidated accounting, the assessment of non-performing assets, and the use of supervisory rating model for banks.[54]

67. The banking sector legal framework comprises two "umbrella acts": the Reserve Bank of India Act 1934, and the Banking Regulation Act 1949. A number of other acts govern banking operations, specific functions, or individual financial institutions.[55]

68. In recent years, a number of regulatory changes and legislative amendments have been introduced, but are still awaiting enactment. In the latest Budget Speech, the Minister of Finance proposed to enact a number of these laws, including: the Banking Laws Amendment Bill 2011; the Bill on Factoring and Assignment of Receivables; and the State Bank of India (Subsidiary Banks Laws) Amendment Bill 2009, among others. In addition, as announced in the Budget 2010/11, the Government has set up a Financial Sector Legislative Reforms Commission to rewrite and streamline

[54] Reserve Bank of India online information, "About us". Viewed at: http://www.rbi.org.in/scripts/AboutusDisplay.aspx.

[55] Acts governing banking operations include: the Companies Act 1956; the Banking Companies (Acquisition and Transfer of Undertakings) Act 1970/1980; the Bankers' Books Evidence Act; and the Banking Secrecy Act. Acts governing specific functions, include: the Public Debt Act 1944/Government Securities Act (Proposed); the Securities Contract (Regulation) Act 1956; the Foreign Exchange Regulation Act 1973/Foreign Exchange Management Act 1999; and the Payment and Settlement Systems Act 2007. Specific legislation on individual institutions includes: the State Bank of India Act 1954; the Industrial Development Bank (Transfer of Undertaking and Repeal) Act 2003; the Industrial Finance Corporation (Transfer of Undertaking and Repeal) Act 1993; the National Bank for Agriculture and Rural Development Act; the National Housing Bank Act; and the Deposit Insurance and Credit Guarantee Corporation Act.

the financial sector laws, rules, and regulations. The Commission is expected to complete its work by 2013.

69. The RBI, as regulator and supervisor, prescribes broad parameters of banking operations within which India's banking system functions. The RBI also acts as banker to the Government and lender of last resort, performing merchant banking functions for the central and the state governments. The RBI has three fully owned subsidiaries: the National Housing Bank (NHB), the Deposit Insurance and Credit Guarantee Corporation of India (DICGC), and the Bharatiya Reserve Bank Note Mudran Private Ltd. (BRBNMPL). The RBI has a majority stake in the National Bank for Agriculture and Rural Development (NABARD); it has recently divested its stake in the State Bank of India.[56]

70. Indian and foreign banks require a licence from the RBI to undertake banking operations in India. An authorization is required for the opening of new branches by banks and for changes in the location of existing branches, in accordance with the Branch Authorization Policy. Since 1 December 2009 Indian banks no longer require a licence from the RBI to open a branch in areas with a population below 50,000, subject to reporting. The RBI also regulates mergers, amalgamation, and winding up of banks.

71. Scheduled commercial banks are required to maintain a certain portion of their net demand and time liabilities (NDTL) in the form of cash with the RBI, i.e. cash reserve ratio (CRR), and in the form of investment in approved securities, i.e. statutory liquidity ratio (SLR). The RBI monitors compliance with these requirements in the banks' day-to-day operations. The CRR is fixed by the RBI and used as a tool to inject/subtract excess liquidity. In the wake of the financial crisis, both the CRR and the SLR were lowered, but as monetary conditions changed, they were raised to 6% and 24%, respectively, and were still at this level in March 2011.[57]

72. Interest rates on most categories of deposits and lending transactions are largely determined by banks. However, the RBI regulates interest rates on savings accounts held at scheduled commercial banks, deposits of non-resident Indians (NRI), and a few categories of advances. During most of the period under review, the RBI used the benchmark prime lending rate (BPLR) system, introduced in 2003 to regulate interest rates. The BPLR was used as a benchmark rate for banks to price their loan products so as to reflect actual costs but banks were allowed to lend below the BPLR. This meant that it was difficult to assess the transmission of RBI policy rates to actual bank lending rates. Based on the recommendations of a working group, the RBI replaced the system by a base rate system in April 2010, which entered into effect on 1 July 2010. The base rate is the minimum rate for all loans. Banks are not allowed to lend below the base rate except for: (a) differential rate of interest (DRI) advances; (b) loans to banks' own employees; (c) loans to banks' depositors against their own deposits; and (d) restructured Working Capital Term Loans (WCTL), and Funded Interest Term Loans (FITL), granted for viability purposes. Subsidized interest rates on agricultural loans and for

[56] Reserve Bank of India (undated).

[57] In terms of Section 42 (1) of the Reserve Bank of India Act 1934, the RBI having regard to the needs of securing monetary stability, prescribes the CRR for scheduled commercial banks without any floor or ceiling rate. At present, the CRR is at 6% of a bank's total of net demand and time liabilities for SCBs. Between end-April and end-August 2008, the CRR was increased in stages from 7.75% to 9%; it was brought down in stages to 5% between then and January 2009 and raised in stages to the present rate effective 24 April 2010. In terms of Section 24 of the Banking Regulation Act 1949, the RBI can prescribe the SLR for SCBs in specified assets; this percentage must not exceed 40% of the bank's total demand and time liabilities in India. At present the SLR for scheduled commercial banks is 24% of their net demand and time liabilities NDTL.

some export credits in rupees can also be lower than the base rate.[58] The base rate system applies to all new loans and to existing loans that come up for renewal. Existing loans based on the BPLR system may run until their maturity. The RBI also deregulated interest rates on small loans of up to Rs 200,000 and export credits in rupees, with effect 1 July 2010, and stipulated that these rates may now be set at or above the base rate. The authorities expect the base rate system to facilitate better pricing of loans and enhance transparency in lending rates.[59]

73. The RBI requires that banks maintain a capital to risk-weighted assets ratio (CRAR) of 9%. This includes capital for credit risk, market risk, operational risk, and other risks. Also, in order to maintain the quality of loans and advances, the RBI requires banks to classify their loan assets as performing and non-performing assets (NPAs), primarily based on the record of recovery from the borrowers. NPAs are further categorized into sub-standard, doubtful, and loss assets, depending upon the age of the NPAs, and value of available securities. Banks are also required to make appropriate provisions against each category of NPA and to disclose their exposure to the 20 largest depositors/borrowers, apart from disclosing information on sector-wise NPAs (percentage of NPAs to total advances in that sector) and on the changes in NPAs. Banks are required to have exposure limits, to prevent credit concentration risk and to limit exposure to sensitive sectors such as capital markets and real estate. The RBI also requires banks to classify their investment portfolios into three categories for valuation purposes: held to maturity (HTM), available for sale (AFS), and held for trading (HFT).

74. During the period under review, and in the wake of the global financial crisis, the RBI stepped up its prudential regulations, mainly through the adoption of a roadmap for the implementation of the "advanced approaches" to evaluate risk under Basel II in July 2009.[60] This will require banks to upgrade their risk management framework, and undertake an internal assessment of their readiness to adopt the advanced approaches, in the light of the Basel II criteria. Banks require prior RBI approval to adopt any of the advanced approaches. In the meantime, the RBI issued guidelines in March 2010 on "Implementation of the Standardised Approach" (TSA) and "Alternative Standardised Approach" (ASA) for calculation of capital charges for operational risk, largely based on the Basel Committee on Banking Supervision (BCBS) guidelines.[61] Guidelines on the Internal

[58] In general, since the RBI deregulated the interest rate on rupee export credit, effective 1 July 2010, exporters must obtain export loans in rupees at the market-determined interest rates. The exceptions to this are pre- and post-shipment export credits extended between 1 April 2010 and 31 March 2011 for seven employment-oriented export sectors (handicrafts; carpets; handlooms; leather and leather manufactures, jute manufacturing; engineering goods; and textiles) and for small and medium enterprises. These credits have been granted with an interest rate subvention of 2 percentage points, subject to the condition that the interest rate, after subvention, does not fall below 7%, which is the rate applicable to the agriculture sector under priority sector lending.

[59] Reserve Bank of India (2010d).

[60] Basel II offers a choice between two broad methodologies in measuring risks for the purpose of capital adequacy: (i) a standardized approach, used by banks in India since 31 March 2008; and (ii) an advanced approach, by which banks device their own internal risk measurement models. In the latter case, credit risk may be calculated by using a foundation internal ratings based (IRB) approach, or an advanced IRB approach. The standardized approach sets out specific weights for certain types of credit risk. Under both of the advanced approaches, three risk parameters must be used: the probability of default (PD), the exposure at default (EAD), and the loss given default (LGD). Under the foundation IRB, banks estimate only the PD and use supervisory values for the other parameters, while under the advanced IRB, institutions estimate all parameters themselves. Guidelines on the Internal Models Approach for Market Risk were issued by the RBI in April 2010.

[61] Under Basel II, operational risk may be calculated using one of three approaches: (a) a basic indicator approach (BIA); (b) the standardized approach (TSA); and (c) an advanced measurement approach

Models Approach for Market Risk were issued in April 2010. As the Basel II recommendations are phased in by the banking industry, it is expected that banks will move from the standardized approach to advanced approaches for each risk category by each individual bank. In this respect, the RBI has a schedule for banks to phase in the Basel II recommendations.[62] The benefit for banks to develop their own risk measurement systems is that they will eventually be subject to lower risk capital requirements, and will no longer be forced to rely on the ratings generated by external agencies, as is the case with the standardized ratings approach.

75. The RBI has set up a Deposit Insurance and Credit Guarantee Corporation, which provides insurance cover to all eligible bank depositors up to Rs 100,000 per depositor per bank.

76. The RBI supervises banks in order to monitor and ensure their compliance with the regulatory policy framework through on-site inspection, off-site surveillance, and periodic meetings with the banks' top management. On-site inspection is undertaken annually to assess the banks' financial health and to evaluate their performance in terms of quality of management, capital adequacy, asset quality, earnings, liquidity position, as well as internal control systems. Based on the findings of the inspection, banks are assigned supervisory ratings and are required to address any weaknesses identified. The RBI also requires banks to submit detailed and structured information, periodically, under its Off Site Surveillance and Monitoring System (OSMOS). Banks are allowed to undertake non-traditional banking activities, also known as para-banking, which include asset management, mutual funds business, insurance business, merchant banking activities, factoring services, venture capital, card business, equity participation in venture funds, and leasing.

77. In February 2005, the RBI formulated a Roadmap for Presence of Foreign Banks in India and the Guidelines on Ownership and Governance in Private Banks. The Guidelines cover minimum capital requirements, provisions on ownership structure, procedures for acquisition and transfer of shares, and conditions for senior officials and large shareholders.[63] Private-sector banks must maintain minimum capital, initially of Rs 2 billion, to be increased to Rs 3 billion in three years, while net worth must be Rs 3 billion at all times. No entity may own or control more than 10% of the paid-up capital of a private sector bank.[64] In addition, the voting rights of any individual, irrespective of their shareholding, are capped at 10%. The roadmap was divided into two phases; the first phase was implemented between March 2005 and March 2009, and the second phase was scheduled to begin in April 2009 after a review of the experience gained in the first phase.

78. In the first phase, foreign banks willing to have a presence in India for the first time could choose to operate through branch or to set up a 100% wholly owned subsidiary (WOS).[65] Foreign banks already operating in India were also allowed to convert their existing branches to a WOS,

(AMA). Guidelines on the TSA and an Alternative Standardised Approach (ASA) for operational risk largely based on the Basel Committee on Banking Supervision guidelines were issued by the RBI in March 2010.

[62] The time schedule for the application to use the advance approaches is: (a) internal models approach (IMA) for market risk, 1 April 2010 (approval 31 March 2011); (b) TSA for operational risk, 1 April 2010 (30 September 2010); (c) advanced measurement approach (AMA) for operational risk, 1 April 2012 (31 March 2014); and (d) internal ratings based (IRB) approaches for credit risk (Foundation and Advanced IRB), 1 April 2012 (31 March 2014).

[63] The authorities indicate that ownership and governance of banks specified in the Banking Regulation Act 1949 are supplemented by RBI regulations from time to time.

[64] However, exceptions are allowed for the consolidation or restructuring of weak banks; RBI approval is required.

[65] Under India's GATS commitments, foreign banks were allowed to access the Indian market only through branches. Restrictions were also imposed on the number of banking licences (12 per year, both for new entrants and existing banks), and on the value of the banking system's assets in the hands of foreign banks (15% of total assets).

which would be treated as existing branches of foreign banks for branch expansion in India. However, during the first phase no foreign bank applied to establish itself as or to convert to a WOS. The initiation of the second phase in April 2009, during which foreign banks would be permitted to enter into mergers and acquisitions with any private bank in India, subject to an overall investment limit of 74%, coincided with the global financial crisis. The RBI decided to continue with the policy and procedures set out in the first phase, to review the roadmap, and to start the second phase when there was more clarity on stability and recovery of the global financial system. In January 2011, the RBI released the Discussion Paper on Presence of Foreign Banks in India[66], seeking feedback from all stakeholders and the general public with respect to the most convenient form of foreign bank presence in India.[67] The authorities noted that the guidelines delineating the roadmap would be finalized after taking into account the feedback/suggestions received. As at June 2011, all foreign banks in India are branches.

79. Banks operating in India (including public-sector banks, privately owned banks, and foreign-invested banks) authorized to deal with foreign exchange, are eligible to set up offshore banking units (OBUs) in special economic zones (SEZs). Eligible banks are allowed to establish only one OBU per SEZ, essentially for wholesale banking operations. As a start-up contribution, the parent bank should provide a minimum of US$10 million to the OBU. OBUs are exempt from the cash reserve requirement (CRR); and a statutory liquidity ratio (SLR) exemption may be considered for a specified period, on request. OBUs are expected to provide loans at international rates to companies located in SEZs; they are also permitted to lend to corporations in the domestic tariff area (DTA), under External Commercial Borrowing (ECB) guidelines and subject to the Foreign Exchange Management Act (FEMA) regulations. This latter type of lending may not exceed 25% of total liabilities. OBUs are not allowed to accept or solicit deposits or investments from Indian residents, or open accounts for them.

Cooperative banks

80. Urban cooperative banks (UCBs) play a significant role in providing banking services to middle and lower income groups in urban and semi-urban areas. UCBs, like other cooperative societies, are registered under the respective State Co-operative Societies Act or Multi-State Cooperative Societies Act 2002, and governed by the provisions of the respective acts for non-banking issues such as registration, management, administration, recruitment, and amalgamation and liquidation. However, for their banking-related activities, certain provisions of the Banking Regulation Act 1949 also apply. These banks are hence under the dual control of their respective state and the Central Government, and by the RBI.

81. At end-March 2010, there were 1,674 UCBs, of which only 53 were scheduled banks (Table AIV.1); 681 were unit banks (with no branches). UCBs are largely concentrated in a few states (Andhra Pradesh, Gujarat, Karnataka, Maharashtra, and Tamil Nadu). UCBs require a licence from the RBI for banking business, as well as prior authorization from the RBI to open a new place of business. UCBs that have applied for but not yet been granted a licence, may carry on banking business unless and until they are refused the licence. Once a licence has been refused or cancelled, they may no longer carry on banking activities. UCBs are subject to prudential norms relating to income recognition, asset classification, provisioning and capital adequacy ratio apply, as well as to on-site inspection and off-site surveillance. UCBs are awarded ratings by the RBI considering their performance under the CAMELS (Capital, Asset Quality, Management, Earnings, Liquidity and Systems and Control) model. All scheduled UCBs are inspected annually. Non-scheduled UCBs are

[66] Reserve Bank of India (2011a).
[67] Reserve Bank of India (2011a).

inspected every year or every two years based on the rating awarded to them under the CAMEL model.

82. Rural cooperative banks play an important role in channelling credit to the rural sector, and are considered by the Government to be a key instrument of financial inclusion in reaching out to the rural areas. Cooperative banks are registered under the respective State Co-operative Societies Act or under the Multi-State Cooperative Societies Act 2002. Short-term cooperative credit institutions (STCCIs) function at state, district, and village level and provide primarily short- and medium-term credit for production and marketing of agriculture products: they comprise state cooperative banks (StCBs), district central cooperative banks (DCCBs), and primary agricultural credit societies (PACS). Long-term cooperative credit institutions (LTCCIs) comprise state cooperative agriculture and rural development banks (SCARDBs), and primary cooperative agriculture and rural development banks (PCARDBs) (district or block level). At end-March 2009, there were 96,352 STCCIs, including 31 StCBs, 371 DCCBs, and 95,633 PACS. There were 717 LTCCIs, comprising 20 SCARDBs and 697 PCARDBs.

83. State cooperative banks and district central cooperative banks are ultimately regulated by the RBI, but their supervision is carried out by the National Bank for Agriculture and Rural Development (NABARD). The authorities have indicated that a large number of StCBs and DCCBs are unlicensed and are allowed to function as banks until they are either granted a licence or their application for licence is rejected.[68] The goal of the authorities is to ensure that only licensed cooperative banks operate; it has been recommended that banks that fail to obtain a licence by 2012, should not be allowed to operate, and a roadmap has been put in place to this end. At present, CRAR norms are not applicable to StCBs and DCCBs. However, since March 2008, they are required to disclose the level of CRAR annually.

Other financial institutions

84. The RBI also supervises the so-called "financial institutions", which provide medium- to long-term finance to specific sectors of the economy. In early 2011, there were four financial institutions under full regulation and supervision of the RBI: Exim Bank, the National Bank for Agriculture and Rural Development (NABARD), the National Housing Bank (NHB), and the Small Industries Development Bank of India (SIDBI). The same prudential norms that apply to commercial banks apply to these financial institutions, and they are subject to on-site inspection and off-site surveillance.

85. Regional rural banks (RRBs), local institutions established under the Regional Rural Banks Act 1976, are aimed at developing the rural economy by providing credit, particularly to small and marginal farmers, agricultural labourers, artisans, and small entrepreneurs. RRBs must have a "sponsor bank".[69] The equity of the RRBs is contributed by the Central Government (50%), the relevant state government (15%), and the sponsor bank (35%). In March 2011, there were 82 RRBs operating in 26 states and one union territory, with over 15,000 branches. RRBs are regulated by the RBI and the supervisory powers have been vested with NABARD.[70] RRBs must devote 60% of

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[68] Reserve Bank of India (2010d).

[69] Under Section 3 of the RRBs Act 1976, RRBs are established in a State or union territory at the request of a sponsor bank, which is a stakeholder (35% of equity). Establishment is through a notification in the *Official Gazette*; this or a subsequent notification will specify the local limit within which the RRB will operate.

[70] NABARD has statutory responsibility for conducting inspections of the state cooperative banks (SCBs), district central cooperative banks (DCCBs), and regional rural banks (RRBs) under the provisions of the Banking Regulation Act 1949. In addition, NABARD conducts periodic inspections of state-level cooperative institutions. NABARD conducts periodic on-site inspections of 31 SCBs, 371 DCCBs,

outstanding advances to the private sector. CRAR norms are not applicable to RRBs; however, the RRBs are subject to the same income recognition, asset classification, and provisioning norms as commercial banks.

86. The financial situation of RRBs, reported as difficult in the last review, improved in 2009/10, partly as a result of their restructuring, amalgamation, and recapitalization, along with the application of the prudential regulatory requirements to RRBs. In 2009/10, 79 of the 82 RRBs posted profits. The process of amalgamation of RRBs, initiated in September 2005, brought their number down from 196 to 82. In September 2009, a Committee was established to assess the CRAR of RRBs and to suggest a roadmap for achieving a CRAR of 9% by March 2012. The Committee noted that to meet this goal, a recapitalization of Rs 22 billion was required for 40 of the 82 RRBs, and recommended that the amount be released in two instalments: Rs 13.38 billion in 2010/11 and Rs 8.63 billion in 2011/12; and an additional Rs 7 billion be kept to meet the additional capitalization needs of the weaker RRBs of the north-eastern and eastern regions.

87. The Local Area Bank scheme was introduced in 1996 to create institutions that would provide financial intermediation with a specialized local focus in rural and semi-urban areas. Four local area banks are functioning, although six licences have been granted. Their performance has been satisfactory, and their profitability is higher than that of scheduled commercial banks, but activity remains concentrated in one of the banks (Capital Local Area Bank), which accounts for over two thirds of total assets of these banks.

88. Non-banking financial companies (NBFCs), which engage in lending, investment in shares and securities, hire purchase, chit fund, insurance or collection of monies, are regulated by the RBI and are open to foreign investment up to 100% of their capital. NBFCs do not have any cap on exposure to the capital market. They are classified according to the operations they are allowed to undertake by the RBI. As at March 2010 (latest available figures), there were 12,662 NBFCs, of which 311 were permitted to accept deposits and were classified as NBFC-Ds; non-deposit taking companies are classified as NBFC-NDs.

89. The RBI issues directives for NBFC-Ds setting the amount of public deposits that may be accepted, and the maximum rate of interest payable on such deposits (currently 12.5%).[71] NBFC-Ds may only take time deposits ranging from 12 to 60 months; brokerage fees and other expenses may amount to a maximum of 2% and 0.5% of the deposits, respectively. NBFC-Ds are required to comply with all the prudential norms on income recognition, asset classification, accounting standards, provisioning for bad and doubtful debts, capital adequacy, and credit and investment concentration. Some limitations to investment apply: NBFC-Ds may invest only up to 10% of their owned funds in real estate, and up to 20% in unquoted shares, of other than group/subsidiary companies. NBFC-Ds are subject to a statutory liquidity ratio (SLR) of 15% of deposits, but not to any CRAR norms as they do not accept demand deposits.

90. Initially, NBFC-NDs were not subject to prudential norms for capital adequacy and exposures. However, their borrowings increase considerably, partly due to the entry of some large companies in the industry, and since December 2006, NBFCs with assets of Rs 1 billion or more are classified as Systemically Important and are required to comply with exposure and capital adequacy norms. Further, to avoid risks in the NBFC subsector affecting the banking sector, exposure of banks

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20 SCARDBs, and 82 RRBs (NABARD online information, "Supervisory Functions". Viewed at: http://www.nabard.org/rolefunctionssupervisory.asp.

[71] Currently (June 2011), an NBFC asset finance company (AFC), with minimum investment grade credit rating may accept deposits of up to four times its net owned funds (NOFs): an unrated AFC may accept deposits of up to 1.5 times its NOFs.

to the NBFCs, either in the form of credit facilities or of equity contribution, has been prudentially capped. The exposure of a bank to a single NBFC must not exceed 10% of the bank's capital funds (15% for infrastructure lending); the cap is 15% for NBFC-AFCs (20% for infrastructure lending). Currently, all NBFC-Ds and all large NBFC-NDs are subject to regular annual inspections to identify any possible concern.

91. Since their establishment in 1995, primary dealers (PDs) have played an active role in the government securities market by underwriting and bidding for new issuances and acting as market makers for these securities. Banks are allowed, since 2006/07, to undertake PD activities through specific departments, while stand-alone PDs are permitted to diversify into other business activities. As of 2010, there were 7 stand-alone PDs and 11 banks authorized to undertake PD business (Table AIV.1). Any change in the shareholding pattern or capital structure of a PD needs prior RBI approval. Although primarily regulated by the RBI, to which they must report periodically, PDs must register with and are regulated by the Securities and Exchange Board of India (SEBI) for their stock-exchange activities or any other activity regulated by SEBI. They must join the Primary Dealers Association of India (PDAI) and the Fixed Income Money Market and Derivatives Association (FIMMDA) and abide by their code of conduct.

92. The RBI also supervises conglomerates under the Consolidated Supervision and Financial Conglomerate (FC) Monitoring Mechanism, in place since June 2004. The FC monitoring framework has two main components: (i) off-site surveillance through quarterly reporting requirements; and (ii) half-yearly discussions with the CEOs of the major entities of the FCs in association with other regulators. A group is listed as an identified FC if it has significant presence in at least two financial market segments.

(b) Insurance

Market structure and performance

93. The insurance sector is regulated by the Insurance Regulatory and Development Authority (IRDA), established in 2000. Its functions include supervising the development of the sector, granting licences to insurance intermediaries, and specifying the percentage of insurance business to be undertaken in rural areas and the social sector.[72]

94. At end-December 2010, there were a total of 48 insurance companies, including 23 life insurance companies, 15 general private and four general public insurers, two specialized government insurers (ECGC and AIC), and a reinsurance company (Table IV.6).[73] Total equity in the industry reached Rs 293.9 billion, of which Rs 230.6 billion correspond to the life insurance business. Increased competition has resulted in rapid growth in the industry, and larger private sector participation. Foreign participation as at 31 December 2010 was 24.1% of total private equity, not far off the legal limit of 26%.

95. Despite the large number of private insurance companies, the insurance industry continues to be dominated by state-owned enterprises. The market share of Life Insurance Corporation (LIC) of India, although somewhat lower than reported in the last review (73.5%), was of 68.7% of the life insurance subsector in 2010/11, while the four non-specialized public non-life insurance companies

[72] The "social sector" includes the "unorganized" sector, informal sector, economically vulnerable or backward classes, and other categories of persons both in rural and urban areas.

[73] Under the provisions of the Insurance Act 1938, the General Insurance Corporation of India has been designated as the "Indian Reinsurer" which entitles it to receive obligatory cessions of 10% from all the direct non-life insurers.

(National, New India, Oriental, and United), accounted for 53.2% of gross premium income. The market share of private insurers increased from 26.5% in 2005/06 to 31.3% in 2010/11 for life insurers, and from 26.3% to 46.7% for general insurers. Competition in the industry is still constrained by the relatively high entry barriers: the minimum capital requirement to set up an insurance company is Rs 1 billion, and Rs 2 billion for a reinsurance company, and the share of foreign investment is restricted to a maximum of 26%. Competition is also constrained by requirements to place a certain percentage of policies with the rural and social sectors.

Table IV.6
Insurance and reinsurance market, end-December 2010

	Private		Public		Total			
Insurer	**No.**	**Equity (Rs billion)**	**No.**	**Equity (Rs billion)**	**No.**	**Equity (Rs billion)**	**FDI (Rs billion)**	**% of FDI to total equity**
Life	22	230.59	1	0.05	23	230.64	55.70	24.16
General	15	36.62	4	5.5	19	42.12	8.61	20.44
Special Govt insurance	0	0	2	11	2	11.00	0	--
Health insurer	3	5.86	0	0	3	5.86	1.41	24.08
Re-insurer	0	0	1	4.3	1	4.30	0	--
Total	40	273.07	8	20.85	48	293.92	65.72	22.36
Pending applications	3				3			

Source: Information provided by the Indian authorities.

96. Insurance companies must maintain a required solvency margin which, for life insurers, is the higher of Rs 500 million (Rs 1 billion for the reinsurer) or a sum based on a formula.[74] The required solvency margin for non-life insurers is the maximum of Rs 500 million (Rs 1 billion for the reinsurer), or 20% of net premium income, or 30% of net incurred claims. Insurance companies are required to maintain a solvency margin at a ratio of 1.5 (ratio of actual to the required solvency margin) at all times. At end-December 2010, all the 23 life insurance firms were in compliance with the requirement (including LIC). Among the 21 non-life insurers who were in operation during 2009/10, 19 insurers complied with the mandated solvency requirements, and two public-sector firms, did not comply.[75] The authorities indicated that the situation improved in 2010/11, when 23 out of 24 non-life insurers complied with the mandated solvency requirements.

97. During the period under review, the insurance penetration rate as a percentage of GDP increased substantially for life insurance rising from 2.5% in 2005 to 4.6% in 2009, while density increased from US$18 in 2005 to US$47 in 2009.[76] Growth in the general insurance sector has been more moderate; penetration has remained stable at around 0.6%, while density increased from US$4.4 in 2005 to US$6.7 in 2009. Penetration in rural areas has remained low. The Government is promoting rural insurance coverage through the use of micro-insurance schemes and quantitative targets for premiums to be directed to the rural and social sectors (see below). Other measures to increase rural insurance coverage include a National Agriculture Insurance Scheme, operated by the Agriculture Insurance Company of India (see section (2)).

[74] The formula is given in the IRDA (Assets, Liabilities and Solvency Margin of Insurers) Regulations 2000.

[75] The specialized insurers, AIC and ECGC reported solvency ratios of 2.07 and 14.17 respectively in March 2010, as against 4.58 and 16.42 on 31 March 2009. The national re-insurer, the General Insurance Corporation of India, reported a solvency ratio of 3.71, slightly above that reported in March 2010 (Insurance Regulatory and Development Authority, 2011).

[76] Insurance penetration is measured as the ratio of premiums (in US$) to GDP (also in US$). Insurance density is calculated by dividing total premiums (in US$) by total population.

98. The Micro Insurance Regulations 2005 were implemented to promote the use of insurance by people in the lower income brackets. As a result, premium income under micro-insurance has increased substantially, doubling to Rs 4 billion in 2009/10; some 28 micro-insurance products had been launched as at September 2010 and some 20 million individuals had been insured. The micro-insurance market is dominated by the LIC, which contributed 94% of total micro-insurance premiums in 2009/10. The development of the micro-insurance market has resulted in an increase in the number of micro insurance agents: there were 8,676 in March 2010.

Regulatory framework

99. Insurance and re-insurance in India are regulated by the Insurance Act 1938, as amended by the Insurance (Amendment) Act 2002; the Insurance Regulatory and Development Authority Act 1999, which amended the Insurance Act 1938; the Life Insurance Corporation Act 1956; and the General Insurance Business (Nationalisation) Act 1972. A number of bills were drafted during the period under review and are awaiting implementation, including the Insurance Laws (Amendment) Bill, 2008; the Life Insurance Corporation (Amendment) Bill 2009; and the Pension Fund Regulatory and Development Authority Bill, revised, and first introduced in 2005.

100. The IRDA, the sector's regulator, has the authority to specify the percentage of life insurance business and general insurance business to be undertaken by the insurer in the rural or social sectors.[77] The IRDA is also responsible for supervision of the Tariff Advisory Committee, the body responsible for setting premiums (see below).

101. In accordance with the 1938 Insurance Act, as amended, insurance services may only be carried on by an Indian insurance company, meaning any insurer formed and registered in India under the Companies Act 1956, whose sole purpose is to carry on life insurance business or general insurance business or re-insurance business. In 1999, the Insurance Regulatory and Development Act opened India's insurance market to private participation, including foreign capital, and thus changed the definition of an Indian insurance company. Under this law, foreign participation in the Indian insurance sector is allowed, but the aggregate holdings of equity shares by a foreign company, either by itself or through its subsidiary companies or its nominees, may not exceed 26% of paid-up equity capital. In recent years, the Government has attempted to raise the limit on foreign equity participation to 49%, but this has not yet happened.

102. The Tariff Advisory Committee (TAC) under the IRDA was, until 2007, in charge of determining premiums for fire, motor vehicle, engineering, and workmen's compensation insurance; the insurance companies themselves set premiums for all other general insurance categories. Tariff control for all classes of non-life insurance business, except motor third-party cover, was eliminated effective 1 January 2007 and, as consequence, the role of TAC has been diluted.[78] Proposed legislation included in the Insurance (Amendment) Bill 2009, envisages dissolving the TAC.

103. In accordance with the Insurance Regulatory and Development Authority (Obligations of Insurers to Rural Social Sectors) Regulations 2002, insurers must place a certain percentage of their policies with the rural and social sectors (Table IV.7).[79] The Regulations mandate that every insurer,

[77] Section 14 of IRDA Act 1999 lays down the duties, powers, and functions of the IRDA.

[78] For motor third party cover, which is a statutory insurance cover required under the provisions of Motor Vehicles Act the IRDA has retained the powers to determine the rates, terms and conditions.

[79] For the purpose of the Regulations, the rural sector is defined as any place with a population of less than 5,000, a density of population of less than 400/km^2, and where more than 25% of the male working population is engaged in agriculture. The social sector includes the unorganized sector (self-employed workers), the informal sector, economically vulnerable or backward classes (living below the poverty line), and persons with disabilities and who may not be gainfully employed, both in rural and urban areas.

beginning to carry on insurance business after the entry into force of the Insurance Regulatory and Development Authority Act 1999, underwrite with persons in the rural sector, 7% of total life insurance policies in the first financial year; 9% in the second financial year; 12% in the third financial year; 14% in the fourth financial year; and 16% in the fifth financial year. The Insurance Regulatory and Development Authority (Obligations of Insurers to Rural Social Sectors) (Amendment) Regulations 2005 and the Insurance Regulatory and Development Authority (Obligations of Insurers to Rural Social Sectors) (Third Amendment) Regulations 2008 extended these percentages to 18% in the sixth and seventh financial years, 19% in the eighth and ninth financial years, and 20% in the tenth financial year. Thus, 20% is set for 2010/11 and for the financial years thereafter. The percentages for general insurance are: 2% for the first year, 3% for the second year, and 5% thereafter; the latter percentage was changed in 2008, to 6% in the eighth year and 7% in the ninth and tenth years.

Table IV.7
Insurance set asides for social and rural sectors, 2011

Legislation	Rural sector		Social sector
	Life insurance	**General insurance**	**Life and general insurance**
Insurance Regulatory and Development Authority (Obligations of Insurers to Rural Social Sectors) Regulations 2002	7% in the 1st financial year (FY); 9% in the 2nd FY; 12% in the 3rd FY; 14% in the 4th FY; 16% in the 5th FY		
Insurance Regulatory and Development Authority (Obligations of Insurers to Rural Social Sectors) (Amendment) Regulations 2005 Insurance Regulatory and Development Authority (Obligations of Insurers to Rural Social Sectors) (Third Amendment) Regulations 2008	18% in the 6th and 7th FYs 19% in the 8th and 9th FYs; 20% in the 10th FY. Thus, 20% is the percentage for 2010/11	2% in the 1st year; 3% in the 2nd year; 5% in the 3rd-7th years; 6% in the 8th year; 7% in the 9th and 10th years	5,000 in the 1st FY; 7,000 in the 2nd FY; 10,000 in the 3rd FY; 15,000 in the 4th FY; 20,000 in the 5th-7th FYs; 35,000 in the 8th FY; 45,000 in the 9th FY; 55,000 in the 10th FY and thereafter

Source: Insurance Regulatory and Development Authority (Obligations of Insurers to Rural Social Sectors) Regulations 2002; Insurance Regulatory and Development Authority (Obligations of Insurers to Rural Social Sectors) (Amendment) Regulations 2005; and Insurance Regulatory and Development Authority (Obligations of Insurers to Rural Social Sectors) (Third Amendment) Regulations 2008.

104. The obligations of insurers in existence in 1999 were defined separately, and are, as of 2009-10, of 25% of premiums for the rural sector in the case of the Life Insurance Corporation (LIC) of India, and 7% for general insurers; these obligations are applicable also in the financial years thereafter. Non-compliance with these obligations may lead to penal action on the part of the IRDA, under Section 105B of the Insurance Act 1938.

105. According to an IRDA report, all 22 life insurance companies in the private sector fulfilled their rural sector obligations, while the LIC was also compliant with its obligations, underwriting a percentage of policies in the rural sector above its prescribed 25% for 2009/10. Out of 22 life insurance companies in the private sector, 21 fulfilled their social sector obligations during 2009/10, and the IRDA initiated penal action against the non-compliant insurer.[80] The LIC also complied with its social-sector requirements in 2009/10. All non-life private insurance companies and all except one public sector insurer complied with their rural and social sector obligations in 2009/10; the IRDA initiated penal action against the non-complier.

106. The Micro Insurance Regulations 2005 provide a platform to promote insurance penetration among the rural and urban populations. The Regulations define micro-insurance as policies of up to Rs 30,000 or Rs 50,000, depending on the type of insurance contract. The Regulations promote the

[80] Insurance Regulatory and Development Authority (2011).

creation of specific micro-insurance products and allow non-governmental organizations and self-help groups to act as agents to insurance companies in marketing these micro-insurance products. Agents may charge a commission of 10% of the premium for single-premium life insurance policies, and 20% for non-single-premium policies; for non-life insurance business, agents may charge a commission of 15% of the premium.

107. Grievances with respect to insurance issues may be addressed to the Insurance Ombudsman, established in 1998. There are 12 Ombudsmen across India. The Insurance Ombudsman may engage in conciliation, and award-making; the Ombudsman's powers are restricted to insurance contracts of a value not exceeding Rs 2 million. Insurance companies are required to honour awards passed by an Insurance Ombudsman within three months.

108. The authorities have indicated that a number of regulatory changes are in the pipeline, including (a) raising the foreign equity limit in an Indian insurance company from 26% to 49%; (b) allowing foreign re-insurers to open branches only for re-insurance business in India; (c) making the underwriting of third-party risks of motor vehicles obligatory; (d) shifting the responsibility of appointing insurance agents from the IRDA to the insurers; and (e) introducing flexibility to raise capital through other forms instead of through equity alone.

(c) Securities

109. The securities sector is regulated by the Securities and Exchange Board of India (SEBI) established in 1992, through the Securities and Exchange Board of India Act 1992, as amended. The SEBI's mandate is to regulate and promote the development of the securities market, and protect the interests of investors in securities. The other main laws that regulate the securities sector include the Securities Contract (Regulations) Act 1956, as amended, the Depositories Act 1996, and the relevant provisions of the Companies Act 1956. The Securities Contract (Regulations) Act 1956 was amended in 2007 to broaden its coverage to include mortgage debt, and added a section on the public issue and listing of these securities.[81]

110. The securities sector was developing fast until the global financial crisis, when it was severely hit by the developments in the rest of the world. As a result, capital raised in the primary securities market declined from US$72.7 billion in FY 2007/08, to US$59.2 billion in 2008/09 (Table IV.8). Moreover, the capitalization of the secondary securities market halved, and the equity market turnover declined by a third. However, the securities sector has been expanding again since 2009/10, largely due to the dynamism of the Indian economy.

111. At end-March 2011, there were 21 stock exchanges in India, all regulated by the SEBI under the Securities Contract (Regulation) Act 1956, and the SEBI Act 1992. Of these, two were dealing with derivatives and four with currency derivatives. The two largest stock exchanges are the National Stock Exchange (NSE), and the Bombay/Mumbai Stock Exchange (BSE). The NSE and the BSE operate electronic markets offering trading in equities, derivatives and currency derivatives (including equity-based derivatives), exchange traded funds (EFTs), currency futures and options, and government securities.[82] Almost all companies listed in the NSE are also listed in the BSE. In March 2011, there were 1,574 companies listed in the NSE and 5,067 in the BSE with a market capitalization of US$1.53 trillion (some 93% of GDP). Some 1,722 foreign institutional investors (FIIs, see below), had investments valued at US$245 billion, and there were 51 mutual funds.

[81] Securities and Exchange Board of India online information. Viewed at: http://www.sebi.gov.in.

[82] For further information on each stock exchange, see Bombay Stock Exchange Ltd. online information, "Introduction". Viewed at: http://bseindia.com/about/introbse.asp; and the National Stock Exchange of India Ltd. online information. Viewed at: http://www.nseindia.com/.

Table IV.8
Securities market, 2008-11

Registered market participants	**2008[a]**	**2009[a]**	**2010[a]**	**2011[a]**
Stock exchanges				
Cash market	19	20	20	19
Derivatives market	2	2	2	2
Currency derivatives	0	3	3	4
Foreign institutional investors	1,319	1,635	1,713	1,722
Custodians	15	16	17	17
Venture capital funds	106	132	158	184
Foreign venture capital investors	97	129	143	153
Mutual funds	40	44	47	51
	2007/08	**2008/09**	**2009/10**	**2010/11[b]**
Primary securities market				
Capital raised (US$ billion)				
Equity securities				
Public and rights issues	21.23	3.21	11.61	15.12
Qualified institutions placements (QIPs)	6.34	0.04	9.01	5.42
Preferential allotments	15.31	10.49	4.35	6.38
Debt securities				
Public issues	0.40	0.33	0.53	1.98
Private placements	29.44	45.12	44.84	45.86
Total	**72.72**	**59.19**	**70.34**	**47.84**
Secondary securities market				
Number of listed companies	4,887	4,929	4,975	5,067
Equity market capitalization (US$ billion)	1,284.99	605.77	1,366.04	1,530.00
Equity market turnover US($ billion) (NSE + BSE Ltd.)[c]	1,274.79	838.93	1,163.48	981.64
Number of trades (million) (NSE + BSE Ltd.)[c]	1,703	1,906	2,287	2,079
Daily average turnover (US$ billion) (NSE + BSE Ltd.)[c]	5.08	3.45	4.77	4.12
Derivatives market				
Turnover (US$ billion)				
Equity derivatives	3,313.21	2,400.74	3,725.29	6,543.00
Currency derivatives	n.a.	64.16	786.08	1,650.78
Interest rate futures	n.a.	n.a.	0.64	0.01
Average daily turnover (US$ billion)				
Equity derivatives	13.20	9.88	15.27	25.76
Currency derivatives	..	0.46	3.28	6.75
Investment by foreign institutional investors (FIIs)	..	..	..	..
Investment during the year (US$ billion)	16.44	-9.84	30.25	32.22
Cumulative net investment by the FIIs (US$ billion)	68.92	59.08	89.33	121.55
Market value of assets (US$ billion)	184.26	76.94	199.59	244.92[d]
% of equity market capitalization held by the FIIs	13.94	..	13.64	..
Investments by venture capital funds and foreign venture capital investors (cumulative investments (US$ billion))				
Venture capital funds	4.99	4.47	4.05	5.13[a]
Foreign venture capital investors	4.18	4.52	6.40	7.41[a]

.. Not available.
n.a. Not applicable.

a 31 March.
b Up to 28 February 2011.
c NSE: National Stock Exchange. BSE: Bombay/Mumbai Stock Exchange.
d On 31 December 2010.

Note: Financial year (April–March).

Source: Securities and Exchange Board of India; and information provided by the Indian authorities.

112. The authorities have noted that a policy initiative since India's last Review in 2007, and in particular in the wake of the global financial crisis, has been to promote the use of the Investor Protection and Education Fund (IPEF), created by a 1999 amendment to the Companies Act 1956 for

the promotion of investors' awareness and protection of the interests of investors. The Fund is financed by contributions from unpaid dividend accounts of companies, and the interest accrued on matured debentures and deposits.[83] Other policy initiatives include changes to the regulatory environment, such as a reduction of the timelines for public issue; simplified listing requirements for Indian depository receipts (IDRs) issued by companies from IOSCO MMoU signatories[84]; a liberalization of the overseas investment regime for mutual funds, and the abolition of an entry load for all mutual fund schemes; and promotion of an initiative to develop the still incipient Corporate Bond Market. In addition, the regulatory framework was modified to enable participation of FIIs and mutual funds in IDRs.

113. SEBI also issued notified regulations (SEBI (Issue of Capital and Disclosure Requirements) Regulations 2009 (ICDR Regulations)) to strengthen the enforceability of the regulatory framework relating to issue of capital by companies and to streamline the disclosures to be made by companies coming out with public offerings. The Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations 2008, introduced the concept of Real Estate Mutual Funds (REMFs), to which the same regulations are applied as to ordinary mutual funds.

114. An additional important regulatory step, has been the devising of a roadmap for the adoption of International Financial Reporting Standards (IFRS). In terms of this roadmap, India has adopted a convergence route for the adoption of IFRS-INDAS (Indian Accounting Standards), but the effective dates of implementation are yet to be announced, as the tax implications of adopting the IFRS need to be ironed out.[85]

115. Foreign investment is allowed, either under the FDI route or the portfolio investment scheme. Foreign investment under the latter is allowed subject to registration as a foreign institutional investors (FII) or its sub-account. Investments by individual FIIs or broad-based sub-accounts may not exceed 10% of the issued capital of a company. All FIIs and their sub-accounts taken together may not acquire more than 24% of the paid-up capital of an Indian company (Table IV.9). This restriction may be increased to the sectoral limit.[86] The combined limit for investment in the stock

[83] For more information, see Investor Education and Protection Fund online information. Viewed at: http://www.iepf.gov.in/faq.asp.

[84] The International Organization of Securities Commission's (IOSCO) Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange Of Information (MMoU) sets an international benchmark for cross-border cooperation to combat violations of securities and derivatives laws. Securities regulators may, under the MMoU, provide information and assistance. For the text of the MMoU, see IOSCO's online information, "IOSCO Public Documents". Viewed at: http://www.iosco.org/library/index.cfm?section=pubdocs&year=2002&publicDocID=126.

[85] In accordance with Phase I of the roadmap, companies that: are part of the NSE – Nifty 50; are part of BSE – Sensex 30; whose shares or other securities are listed on stock exchanges outside India; and whether listed or unlisted, whose net worth exceeds Rs 10 billion, would have adopted IFRS standards by 1 April 2011. Companies whether listed or unlisted whose net worth ranges from Rs 5 billion to Rs 10 billion, were to apply IFRS standards as of 1 April 2013 (Phase II), and listed companies with a maximum net worth of Rs 5 billion, as of 1 April 2014 (Phase III). IFRS standards would not apply to unlisted companies (in India and abroad) with maximum net worth of Rs 5 billion. These dates are now being reviewed.

[86] The sectoral limit is the aggregate amount of foreign investment (including FDI and FII) permitted in a particular sector, as specified in India's foreign investment policy. Under RBI regulations, FIIs are allowed to invest in the primary and secondary capital markets in India through the portfolio investment scheme, and may acquire shares/debentures of Indian companies through the stock exchanges in India. The ceiling for overall investment for FIIs is 24% of the paid-up capital of the Indian company and can be raised up to the sectoral cap/statutory ceiling, subject to RBI and company approval. In the case of investment in the stock exchange, the FII limit is actually 23%, since the combined limit of FDI (26%) and FII is 49%. The RBI monitors the ceilings on investments in Indian companies on a daily basis. The RBI has fixed cut-off points that are two percentage

exchange is 49%. Furthermore, FII investment in debt is limited to US$10 billion in government debt securities, of which US$5 billion must be invested in securities having a residual maturity of over five years. FII investment in corporate debt securities is limited to US$40 billion, of which US$25 billion must be invested in corporate bonds having a residual maturity of over five years issued by companies in the infrastructure sector. The Union Budget 2011/12 opened up the possibility for mutual funds to accept subscriptions from foreign investors in equity-oriented schemes, increasing investment possibilities for foreigners.

Table IV.9
Market-access and national-treatment conditions for foreign investment in the securities market, 2011

Sector/sub-sector	Limitation on market access	Limitation on national treatment
Venture capital	Domestic venture capital funds and foreign venture capital investors are regulated by SEBI. A venture capital fund may raise moneys from any investor, Indian, foreign or NRI, by way of issue of units.	Subject to SEBI regulations
Asset management (mutual funds)	Restriction on cross-border flows by RBI. Overseas investors may invest through offshore funds.	Subject to SEBI regulations and RBI norms
Portfolio management	FIIs and sub-accounts may avail portfolio management service. Portfolio management may offer advice to foreigners via a subsidiary opened in the jurisdiction.	Subject to SEBI regulations and RBI norms
Custodial, depository, and trust services	Foreign banks may carry out activities, subject to RBI approval and SEBI Regulations. Foreign banks are allowed to register as Custodian with SEBI.	Only banks are permitted subject to SEBI regulations
Participation in issues of all kinds of securities, including underwriting and placement as agent	Foreign entities may subscribe to issues as FIIs. Foreign companies may issue IDR to raise money. May act as intermediaries subject to setting up a company in India.	Subject to SEBI regulations
Investment in stock exchange	Composite ceiling of 49% for foreign investment (FDI 26% and FII 23%).	-

Source: Securities and Exchange Board of India.

116. The Securities Transaction Tax (STT), regulated by the Securities Transaction Act 2004 is applied on the sale and purchase of various securities. The present rates are 0.017%, 0.025%, 0.125%, and 0.25% of the value of the transaction, depending on its nature.

117. Takeovers in the securities sector are regulated by SEBI (Substantial Acquisition of Shares and Takeovers) Regulations 1997. The regulations provide for disclosure obligations for each acquisition that leads to the acquirer owning 5%, 10%, 14%, 54% or 74% of the shares of the company. An investor who owns between 15% and 55% of the shares, must disclose the purchase or sale of any further stock representing at least 2% of the total shares, and must submit yearly declarations stating the amount of ownership both in terms of number of shares and as a percentage of the total voting capital of the company. There are also regulations with respect to trigger points for making an open offer by an acquirer: acquirers who intend to acquire shares that, along with their existing shareholding, would entitle them to exercise 15% or more of the voting rights, may acquire such additional shares only after making a public announcement of an open offer to acquire at least an additional 20% of the voting capital of the target company from shareholders. Acquirers who hold between 15% and 55% of shares may not acquire more than 5% shares in any financial year without triggering an open offer. Acquirers holding 55% or more but less than 75%, may acquire up to 5% of

points lower than the actual FII ceilings, e.g., the cut-off limit for companies with a 24% FII ceiling is 22%. Once the aggregate net purchases of equity shares of the company by FIIs reach the cut-off point, the RBI cautions all designated bank branches so as not to purchase any more equity shares of the respective company on behalf of FIIs without prior RBI approval. Once the aggregate ceiling limit has been reached, the RBI advises all designated bank branches to stop purchases on behalf of their FIIs.

the voting rights in the target company via an open market transaction or as a passive increase pursuant to a buy-back offer by the target company without triggering an open offer.[87]

(iii) Telecommunications

118. The telecommunications sector is regulated by the Indian Telegraph Act 1885 (as amended), the Indian Wireless Telegraphy Act 1933, the Indian Telegraph Rules 1951 (as amended), the Telecom Regulatory Authority of India Act 1997, and the directions, orders and regulations issued by Telecom Regulatory Authority of India. The Indian Telegraph Rules 1951 were amended in 2008.[88]

119. The Department of Telecommunications (DoT), at the Ministry of Communications and Information Technology, is in charge of formulating the telecommunications policy and of granting licences. The DoT also controls four central public sector undertakings, including India's main fixed lines operators, Bharat Sanchar Nigam Ltd. (BSNL), and Mahanagar Telephone Nigam Ltd. (MTNL).[89] The Telecom Regulatory Authority of India (TRAI), created in 1997 as an independent body, regulates tariffs, inter-connectivity, and quality standards, and ensures that the universal service obligation is met. TRAI also makes recommendations regarding the procedures to grant licences. The Telecom Disputes Settlement and Appellate Tribunal (TDSAT) resolves disputes between the Government and licensees, service providers, and service providers and consumers; and deals with appeals against TRAI's decisions.[90] Court fees for filing petitions and appeals with TDSAT are set at Rs 5,000 and Rs 10,000, respectively.[91] Over 2007-10, 1,325 disputes and 46 appeals were filed.[92]

120. The New Telecom Policy 1999, the Broadband Policy 2004, and their amendments, continue to establish the main guidelines for the development of the telecom sector in India.[93] India is in the process of drafting the New Telecom Policy 2011.

121. Since 2007, development in the telecommunications market has been driven by an impressive growth in the wireless segment, which has led to a significant improvement in overall teledensity. However, major gaps remain between urban and rural teledensity (Table IV.10). In addition, the goals set in the Broadband Policy 2004 of reaching 40 million internet subscribers and 20 million broadband subscribers by 2010, have not been met (Table IV.10).[94] Constraints to the development of the broadband system include inadequate wireline infrastructure, power cuts, high cost of computers and low PC penetration, and high broadband tariffs.[95]

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[87] Securities and Exchange Board of India (2010).

[88] Department of Telecommunications online information, "Telecom related Acts and Legislations in India". Viewed at: http://www.dot.gov.in/Acts/acts.htm.

[89] Department of Telecommunications (2010); and Telecom Regulatory Authority of India, Press Release No. 11/2011, 9 February 2011.

[90] ARCEP (2008); and KPMG (2010b).

[91] Department of Telecommunications (2010).

[92] Telecom Disputes Settlement and Appellate Tribunal online information, "Statement the showing the institution disposal and pendency of cases filed/reserved on transfer in TDSAT inception till 27 May 2011." Viewed at: http://www.tdsat.nic.in/Statement_of_Disposal.htm.

[93] Under the National Telecom Policy 1999, providers may share infrastructure in the same area of operation, and national and international long-distance services have been open to competition. The Broadband Policy 2004 allows providers to access mutually agreed commercial arrangements in order to use available copper-loop for the expansion of broadband. For details, see WTO (2002) and (2007); and Department of Telecommunications online information. Viewed at: http://www.dot.gov.in.

[94] Department of Telecommunications online information, "Licensing of Internet Services". Viewed at: http://www.dot.gov.in/internet%20services/internetservices.htm.

[95] KPMG (2010b).

Table IV.10
Selected telecom indicators, 2007-10
(Calendar year)

	2007	2008	2009	2010
Total telephone subscribers (million)	272.87	384.79	562.16	787.28
Fixed lines	39.25	37.90	37.06	35.09
Wireless	233.62	346.89	525.09	752.19
Teledensity	23.87	33.23	47.88	66.16
Urban	61.25	82.15	110.96	147.88
Rural	8.35	12.72	21.16	31.18
Internet subscribers (million)	10.36	12.85	15.24	18.69
Broadband subscribers (million)	3.13	5.52	7.82	10.99
Local fixed telephony providers	7	7	7	7
Mobile telephony providers	9	15	15	15
National long-distance telephony providers	20	26	29	30
International long-distance telephony providers	13	21	24	25
Internet service providers	128	164	162	164
Infrastructure service providers	175	236	288	351
Fixed telephony rates[a] (Rs)				
Cost of local call per minute	1	1	1	1
Cost of national long distance call per minute	1.2	1.2	1.2	1.2
Cost per minute of international long distance call to the United States	7.2	7.2	7.2	7.2
Mobile telephony rate[b] (Rs)				
Cost of local call per minute	1.2	1	1	1
Cost of national long distance call per minute	2.75	1.5	1.5	1.5
Cost per minute of international long distance call to the United States	6.4	6.4	6.4	6.4

a Per BSLN (leading fixed-line telephony provider) general plans.
b Per Airtel (leading service provider of mobile telephony) general plans.

Source: Telecom Authority of India (various issues), *The Indian Telecom Services Performance Indicators*, ending December. Viewed at: http://www.trai.gov.in/Reports_list_year.asp; Telecom Authority of India, Press Release No. 11/2011, 9 February 2011; and information provided by the Indian authorities.

122. The liberalization of India's fixed and mobile telecom markets started in 2000.[96] Telecom services operators may provide all telecommunications services. Private operators (mobile and fixed telephony) held 85% of the total telecom market in 2010. Despite competition, BSNL and MTNL still hold 83% of the fixed telephony market.[97] MTNL provides telecom services in Mumbai and Delhi, and BSNL covers the rest of India. In the mobile segment, 173 licences have been issued since 2004, including to BSNL and MTNL. However, in December 2010, four companies (three private plus BSNL) held 65% of the market.[98] Despite the market concentration, tariffs for telecom services decreased over 2000-09.[99] There are 164 internet service providers in India but BNSL and MTNL account for 70% of subscriptions (December 2010).[100]

[96] National and international long-distance services were opened to competition in 2000 and 2004, respectively (Department of Telecommunications, "Telecom at a glance". Viewed at: http://www.dot.gov.in).

[97] There are seven fixed-line telecom operators in India.

[98] The private operators are Reliance Telecommunications, Bharti, and Vodafone.

[99] The price of national long-distance calls decreased from US$0.67/minute to US$0.02/minute and international long-distance calls (to Canada, the United States, and the United Kingdom) decreased from US$1.36/minute to US$0.16. The price of local mobile calls decreased from US$0.36/minute in 1999 to US$0.04/minute in 2009 (Department of Telecommunications, "Telecom at a glance". Viewed at: http://www.dot.gov.in.).

[100] Telecom Regulatory Authority of India, Press Release No. 11/2011, 9 February 2011; Telecom Authority of India (2011); and Comptroller and Auditor General of India (2009).

123. Under the Telecom Regulatory Authority of India Act 1997, TRAI is in charge of setting tariffs for all telecom services.[101] TRAI consults with all stakeholders[102], including consumer associations on all issues related to the development of telecom regulations including tariffs.[103] The Telecommunications Tariff Order 1999, which, by February 2011, had been amended 49 times[104], stipulates that telecom service providers should charge all subscribers with a standard tariff package (i.e. monthly rental and call charges) but may offer an alternative tariff package to different subscribers on a non-discriminatory basis. Tariffs for the same service may vary according to area of service (i.e. rural and urban) and TRAI fixes floor and ceiling rates for both standard and alternative packages.[105]

124. Competition in the wireless market has increased the number of options and hence the number of tariffs offered (tariff plans).[106] Each operator is allowed to offer up to 25 different tariff plans per telecom service area, rendering the tariff structure complex and raising customers' concerns. As a result, since November 2010, TRAI has been holding consultations with all stakeholders to increase transparency in the provision of mobile telephony tariff plans.[107]

125. As present, India is divided into 22 telecom service areas, divided into four categories (metro, A, B, and C) according to demographic density. To deliver services in each telecom/internet area, domestic and foreign operators must be licensed by the Department of Telecommunications (Table AIV.2). To apply for a licence, operators must register as an Indian company under the Indian Companies Act 1956 and have a maximum of 74% of foreign equity (Table AII.4). No single company (or legal person) may have substantial equity (i.e. 10% or more equity) holdings in more than one licence company per service area for access services (i.e. basic, cellular and unified access service).[108]

126. India introduced the unified access service regime (UAS) to licence fixed and mobile telecom operators in 2003. Providers who were licensed for basic fixed telecom and cellular mobile telephone services prior to the introduction of the UAS, were invited to migrate to the new regime.

127. In 2007, India introduced new licensing guidelines for internet services, which led to the consolidation of two internet service areas, i.e. category A, which covers all of India, and category B, which would cover one or more of India's telecom service areas.[109] Internet services providers licensed for category C internet area prior to 2007, were invited to migrate to category A or B internet areas (Table AIV.2). According to the authorities, all "serious" telecom operators have migrated and

[101] Fixed, mobile, and internet services, and radio paging services, leased circuit, integrated digital services network, value-added services, telex and telegraph services, and global mobile personal communication by satellite.

[102] To undertake these consultations TRAI holds public meetings or invites written comments.

[103] For details, see Telecom Regulatory Authority of India online information, "Consultation Papers". Viewed at: http://www.trai.gov.in/Default.asp.

[104] Five amendments were notified during the period under review. For details, see Telecom Regulatory of India online information, "Tariff Orders". Viewed at: http://www.trai.gov.in/Default.asp.

[105] Telecommunication Tariff Order 1999.

[106] Typical tariff plans have several components, e.g. rental and call charges, processing fee, talk time, and value-added services.

[107] Telecom Regulatory Authority of India online information, "Consultation Paper on Certain Issues relating to Telecom Tariffs", 13 October 2010. Viewed at: http://www.trai.gov.in/ConsultationPapers_list_year.asp?offset=0.

[108] Information provided by the authorities.

[109] Department of Telecommunications online information, "Information and Guidelines". Viewed at: http://www.dot.gov.in.

continued to provide services.[110] The operators that have not migrated may continue as per the existing licence until it expires.

128. Wireless spectrum fees range from 3% to 8% of the operator's adjusted gross revenue.[111] Spectrum availability is expected to improve with the allocation of 3G spectrum and spectrum for broadband wireless access (BWA). Both spectrums were auctioned during April-June 2010[112], subject to eligibility criteria and "reserve prices" (i.e. minimum prices) (Table AIV.3). Throughout India's telecom service areas, a total of 71 frequency blocks of 3G spectrum and 44 frequency blocks of BWA spectrum were auctioned.[113] Prior to the auction, one frequency block of each spectrum was reserved to MTNL in the Delhi and Mumbai telecom service areas, and to BSNL in the remaining areas to ensure prompt provision of these services in India. MTNL and BSNL launched 3G spectrum services in December 2008 and February 2009, respectively.[114] Although they did not participate in the auction, they were required to match the price determined at the auction. BWA spectrum has also been allotted to successful bidders and some of them have already started providing service. All 3G and BWA frequency blocks were sold.[115] The Government approved seven bidders (out of nine) for allocation of 3G spectrum and six bidders (out of eleven) for allocation of BWA spectrum.[116] Commercial use of 3G spectrum started in September 2010.[117]

129. TRAI issued the Mobile Number Portability Regulations 2009 to implement the Mobile Number Portability (MNP) Policy, which was launched on a trial basis only in one telecom service area in November 2010, and across India in January 2011.[118] India is divided into two areas for "clearing houses" to provide mobile number portability; one licence per area is awarded by the Department of Telecommunications, but clearing houses may bid to service both areas. Clearing houses must pay an entry fee (Rs 10 million) and deposit a financial guarantee and a performance bank guarantee, to bid for a licence. According to the authorities, licences, which were awarded in April 2009[119], have been operational since November 2010. Licences are granted for five years, subject to an annual fee (1% of the adjusted gross revenue). Over this five-year period, other operators may be licensed so that there is a backup if the primary licence holder fails to deliver MNP services.[120] Subscribers who swap network operators may face service disruption and will be charged Rs 19; however, the new operator may waive the fee or grant subscribers a discount. The procedure to switch from one operator to another may take up to seven days.[121]

[110] Department of Telecommunications (2010).

[111] Wireless Planning and Coordination Wing, Order No. P-11014/18/2008-PP, 25 February 2010.

[112] Auctions were initially scheduled to start by January 2009, but were delayed upon stakeholders' request for more time to study the offers.

[113] Department of Telecommunications online information, "3G and BWA Auction". Viewed at: http://www.dot.gov.in/as/Auction%20of%20Spectrum%20for3G%20&%20BWA/new/index.htm.

[114] Department of Telecommunications, "Telecom at a glance". Viewed at: http://www.dot.gov.in.

[115] Department of Telecommunications online information, "3G and BWA Auction". Viewed at: http://www.dot.gov.in/as/Auction%20of%20Spectrum%20for3G%20&%20BWA/new/index.htm.

[116] Department of Telecommunications online information, "3G and BWA Auction". Viewed at: http://www.dot.gov.in/as/Auction%20of%20Spectrum%20for3G%20&%20BWA/new/index.htm.

[117] KPMG (2010b).

[118] Ministry of Finance (2011a).

[119] Department of Telecommunications (2010).

[120] Department of Telecommunications online information, "Mobile Number Portability (MNP) Service". Viewed at: http://www.dot.gov.in/as/MNP/MNPindex.htm.

[121] *Business Standard*, "PM flags off pan-India MNP rollout", 21 January 2011. Viewed at: http://www.business-standard.com/india/news/pm-flags-off-pan-india-mnp-rollout/422511/.

130. Development and maintenance of rural fixed-line and mobile telecom and broadband services are subsidized to allow affordable prices for customers.[122] All service providers, except providers of value-added services (e.g. internet, voice-mail, and e-mail services), are subject to a universal service levy of 5% of the adjusted gross revenue.[123] Funds from the USOF are allocated to "eligible operators" from the public and the private sectors[124], through a bidding process, for telecom and broadband infrastructure development projects in rural areas (e.g. provisions of village public telephones, household telephones, and infrastructure for mobile and broadband services).[125]

131. Until end-March 2008, a subsidy was also provided to BNSL (India's incumbent fixed-line operator) to compensate for the cost of maintaining fixed-line telecom services in rural areas and to provide telecom services at affordable prices to customers.[126] To finance this subsidy, private telecom operators had to pay an access deficit charge (ADC) to BSNL. The ADC was a fixed charge on incoming and outgoing international long-distance calls.[127] The ADC was not levied on revenue generated from rural wireline subscribers.[128] Based on TRAI recommendations, in 2008, the ADC was replaced by an annual subsidy.[129] The annual subsidy (Rs 20 billion) is in place for three years and may only be used to maintain the infrastructure to supply fixed-line services installed in households prior to April 2002. Consultations will be held in 2011 to assess the continuation of the subsidy.[130] The annual subsidy is paid to BSNL from the funds available with USOF, based on TRAI recommendations.[131]

132. It is reported that some 98% of Indian villages are covered by at least one operator via a public telephone.[132]

133. In addition to the Competition Act 2002, the Department of Telecommunications issued guidelines, in 2008, for mergers and acquisitions in the telecom subsector. Mergers and acquisitions are restricted to the same area of operation. They are not authorized if less than four providers operate per service area. Combined market shares of merged entities must not exceed 40%.[133]

[122] Department of Telecommunications (2010).

[123] Department of Telecommunications, Notification No. 20-100/2007-AS-I, 1 October 2008.

[124] Basic service operators, cellular mobile service providers, and unified access services licence holders or any entities that may be specified by the Central Government from time to time (Indian Telegraph (Amendment) Rules 2004).

[125] Department of Telecommunications (2010); and Indian Telegraph (Amendment) Rules 2004.

[126] Telecom Regulatory Authority of India online information, "Consultation Paper on Access Deficit Charge", 21 January 2008. Viewed at: http://www.trai.gov.in/ConsultationPapers_list_year.asp?offset=0.

[127] In January 2008, the ADC amounted to Rs 1.60/minute on incoming international long-distance calls and Rs 0.80/minute on outgoing international long-distance calls.

[128] Telecom Regulatory Authority of India online information, "Consultation Paper on Access Deficit Charge", 21 January 2008. Viewed at: http://www.trai.gov.in/ConsultationPapers_list_year.asp?offset=0.

[129] Indian Telegraph (Amendment) Rules 2008.

[130] Information provided by the authorities.

[131] Department of Telecommunications (2009).

[132] Information provided by the authorities.

[133] Department of Telecommunications, "Access Services: Guidelines for Intra-service Area Merger of Cellular Mobile Telephone Service (CMTS)/Unified Access Services (UAS) Licences". Viewed at: http://dot.gov.in/as/asindex.htm.

(iv) Transport

(a) Maritime transport

Shipping

134. Some 95% of India's merchandise trade by volume and 65% in terms of value is transported by sea.[134] Over 110 domestic shipping companies are engaged in maritime trade.[135] India's fleet comprises 1,071 commercial Indian flag vessels with a gross tonnage of 10.5 million tonnes; around a third of the tonnage is held by the state-owned national flag-carrier, the Shipping Corporation of India (SCI) (March 2011).[136] However, India is short of vessels, and hence foreign-flag vessels dominate maritime transport, accounting for the transport (excluding coastal shipping) of 92% of India's merchandise trade. The dominance of foreign-flag vessel is even larger in foreign trade: Indian flag vessels carry only 4.8% of India's merchandise exports and 10.7% of merchandise imports (2008/09) (latest available data).[137] The Ministry of Shipping controls eight shipping enterprises, including the SCI. According to the authorities, there is no reservation policy for SCI. Bids are awarded to match the lowest price and the technical requirements. The Government also has a strong presence in ship building: it owns three shipyards[138] which hold approximately 10% of the commercial ship-building market.[139]

135. India started implementing the National Maritime Development Programme (NMDP) in 2005 to develop maritime and coastal shipping, and inland water transport system. The NMDP aims to expand India's fleet tonnage, train personnel[140], develop infrastructure for coastal and inland water transport, improve ports infrastructure, and modernize state-owned shipyards for the construction of new vessels, since Indian vessels average 18.3 years.[141] As a result of the NMDP, SCI's gross tonnage increased from 2.73 million in 2007 to 3.6 million tonnes at end 2010, shipbuilding facilities have improved and so has infrastructure for inland water transport.[142]

136. Several other guidelines and agendas have been drafted but not implemented. The Draft Policy (Revised) for the Maritime Sector 2005 outlined guidelines to develop maritime transport up to 2025.[143] This policy sought to modernize and develop ports; promote hinterland connectivity to ease transport; promote port specialization and inter-port complementarity; increase private (domestic and foreign) investment; and strengthen the shipbuilding sector. However, according to the Ministry of Shipping (for unspecified reasons), the Policy could not be implemented.[144] The Draft Policy was thereafter reshaped into the India Maritime Agenda 2010-20 issued by the Ministry of Shipping in

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[134] Ministry of Finance (2011a).

[135] Major players are the Shipping Corporation of India Ltd., Great Eastern Shipping Company Ltd., Essar Shipping and Logistics Ltd., Mercator Line Ltd., and Varun Shipping Company Ltd.

[136] Ministry of Shipping online information, "Statistics ". Viewed at: http://shipping.gov.in/index1.asp?linkid=147&langid=1.

[137] KPMG (2008); Ministry of Finance (2011a); and information provided by the authorities.

[138] One was transferred to the Ministry of Defence.

[139] Ministry of Shipping (2010); and Ministry of Shipping online information, "Parliament Related Matter: Rajya Sabha Dated 24 Nov 2009". Viewed at: http://shipping.gov.in/index1.asp?linkid=175&langid=1.

[140] India is reported to be facing a shortage in qualified officers/crew. About two third of India's officers/crew serve on foreign-flag vessels due to better tax treatment. A shortage of 25,000 qualified officers is forecast by 2015 (KPMG, 2008).

[141] Ministry of Shipping (undated); and Ministry of Finance (2011a).

[142] Ministry of Shipping (2010).

[143] Department of Shipping (2005).

[144] Ministry of Shipping (2011).

2011.[145] This document proposes a series of policies and programmes that have to be considered by the different stakeholders prior to their implementation.

137. There appears to have been no major change in the legal framework for maritime transport since India's last TPR, as the Shipping Trade Practices Bill 2010 is still under discussion.[146] The Bill, if enacted, would regulate the provision of maritime transport services. Providers would be required to register with the Directorate General of Shipping (DGS) and notify their tariffs.[147]

138. The registration of Indian vessels is governed by the Merchant Shipping Act 1958 (Part V) and the Merchant Shipping (Registration of Ships) Rules 1960, as amended. Indian vessels must register at designated port registries, subject to fees.[148] A central register is kept by the DGS. Foreign ships may not be registered in India. Under the Act, vessels must be licensed by the DGS. The Director General of Shipping has been empowered to issue licences for Indian ships as well as for foreign ships. The DGS issues general licences (for Indian vessels and vessels chartered by a citizen of India or a company, or a cooperative society), licences for the whole or any part of the coastal trade, and licences for a specified period/voyage (i.e. specified period licence (SPL)), granted to foreign flag vessels for coastal trade subject to no objection certificate issued by the Indian National Shipowners' Association (INSA).[149] According to the authorities, the procedure for issuing licences is similar for Indian and foreign flag vessels, except that in the case of the latter a certificate of no objection from INSA is required and they are for a limited period – specific to the contract tenure involved.[150] In addition, there are some differences in the fee structure for licences granted to foreign and Indian flag vessels.[151]

139. The Merchant Shipping Act 1958 reserves cabotage to Indian flag vessels (Part XIV). However, foreign flag vessels may be chartered and granted an SPL if no suitable Indian flag vessel operates on the route. In that case, permission is granted by the DGS upon no objection from the Indian National Shipowners Association (INSA). According to the authorities, a foreign flag carrier is allowed to deliver cargo to several Indian ports.

140. Service tax (10%) is charged on the transport of goods on inland waterways and on coastal shipping.[152] The change in taxation introduced in 2005, through which shipping companies were

[145] Ministry of Shipping (2011).

[146] Ministry of Shipping online information, "Acts and Rules". Viewed at:http://shipping.gov.in/writereaddata/linkimages/shipping%20trade%20bill8312790621.pdf

[147] Ministry of Shipping online information, "Acts and Rules". Viewed at: http://shipping.gov.in/index1.asp?linkid=164&langid=1.

[148] Mumbai, Kolkatta, Chennai, Cochin, and Mormugao (Directorate General of Shipping online information, "Shipping Manual". Viewed at: http://www.dgshipping.com/). For fees, see the Merchant Shipping (Registration of Ships) Rules 1960, and the Merchant Shipping (Registration of Indian Ships) Amendment Rules 1994.

[149] These licences are granted under Sections 406 and 407 of the Merchant Shipping Act 1958 and are subject to the conditions specified by the Director General of Shipping, as per guidelines issued in Shipping Department Circular Nos. 2/2002 and 2/2007, as amended from time to time.

[150] Licences for foreign flag vessels are issued with a time limit taking into account statutory certificates such as Registry Certificate, International Load Line Certificate, International Oil Pollution Certificate and Cargo Sea Safety Construction Certificate (information provided by the authorities).

[151] Information provided by the authorities.

[152] An education cess (2%) and a secondary and higher education cess (1%) apply on the payable service tax. For details, see Central Board of Excise and Customs online information, "Service Tax: Service Profile". Viewed at: http://www.cbec.gov.in/cae1-english.htm.

given the option of applying a tax based on total tonnage (tonnage tax) instead of the corporate tax, is estimated to have reduced the tax burden on the shipping sector and encouraged investment.[153]

141. Imports of repair materials by ship-repair units registered with the DGS, are exempt from customs duties, and domestic goods are exempt from excise duties.[154] The recent Budget extended some of the incentives, including duty-free imports of spare parts and other items used for repairs, provided for ocean going vessels owned by ship-owners registered in India.[155]

142. In an attempt to develop coastal shipping, certain concessions are granted to operators, e.g. relaxation in customs procedures[156], and lower charges at ports.[157] Coastal vessels enjoy a 40% reductions on various tariffs and in cargo handling fees (except for vessels transporting thermal coal, crude oil, and petroleum/oil/lubricants).[158]

Ports

143. India has 189 ports.[159] The designated major ports (currently 13) handle some 70% of total cargo[160]; the rest is handled at 66 operating minor ports.[161] Bulk accounts for some 80% of the cargo at the major ports. The average pre-berthing waiting period, which decreased from 10.05 hours in 2006/07 to 9.55 hours in 2008/09, was estimated at over 11.50 hours in 2009/10[162]; there is also a substantial disparity in pre-berthing waiting periods between major ports.[163]

144. All ports are owned by the Government, but may be publicly or privately administered and operated. Foreign investment is allowed in port administration subject to conditions, which may be modified. The Government has announced guidelines to allow joint ventures[164]; and FDI is allowed up to 100% in construction and maintenance of infrastructure for water and maritime transports, as well as in construction of ports and harbours, under the automatic route.[165]

145. Major ports are administered by the Central Government through the Ministry of Shipping, Road Transport, and Highways and managed by "port trusts" under the Indian Ports Act 1908 and the Major Port Trust Act 1963. The exception, Ennore port, is managed under a "landlord" port model,

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[153] The Income Tax Act 1961, as amended on 1 April 2005.

[154] Press note 1990 series No. SY-22013/7/89-SBR, 10 October 1990.

[155] Ministry of Finance (2011b).

[156] Notification of 7 October 1997 and Public Notice No. 190/97 of 20 October 1997 exempt coastal ships from the provisions of Sections 92, 94, 97, and 98(1) of the Customs Act 1962. Hence coastal ships are not required to file a bill of entry when loading at ports or a bill of entry at discharge ports, or to obtain written permission before leaving a port.

[157] Planning Commission (2008).

[158] Information provided by the authorities.

[159] Ministry of Shipping (2011).

[160] Kolkata, Hadia, Paradip, Visakhapatnam, Ennore, Chennai, Tuticorin, Cochin, New Mangalore, Mormugao, Mumbai, Jawaharlal Nehru, and Kandla.

[161] A major port is any port the Central Government declares (by notification in the *Official Gazette*) or has declared (under any law in force), to be a major port (Indian Ports Act 1908).

[162] The authorities attribute this increase to a rise in the number of vessels, the weather, and breakdown and maintenance of equipment.

[163] Ministry of Finance (2010b) and (2011a).

[164] For details, see Indian Ports Association online information, "Private sector participation". Viewed at: http://www.ipa.nic.in/#.

[165] Department of Industrial Policy and Promotion, Circular No. 1 of 2011 (Consolidated FDI Policy (effective 1 April 2011)), paragraph 5.22, 31 March 2011.

which separates port ownership from port operations.[166] India is in the process of revising its ports regulatory framework. The Indian Ports (Consolidated) Act 2011 or Indian Ports Bill 2010, which is under discussion, should replace the Indian Port Act 1908, which currently governs ports, and the Major Trusts Act 1963. Under the proposed Act, which deals with the administration of ports, major and non-major ports are to be governed by Central Government and state governments, respectively, through port authorities. The Port Regulatory Authority Bill 2011, which deals with ports regulation, covers both types of ports. This Bill proposes a two tier "regulatory-cum-appellate model" with the Major Port Regulatory Authority (MPRA) covering major ports and the State Port Regulatory Authority the other ports in the respective states.

146. Tariffs for services and facilities at major ports are regulated by the Tariff Authority for Major Ports (TAMP)[167], constituted in April 1997 as an independent authority. However, the Government may invalidate TAMP tariff rulings, through a decision of a High Court.[168] The Ministry of Shipping drafted the Major Ports Regulatory Authority Bill 2011 to establish the Major Ports Regulatory Authority (MPRA). If this Bill is enacted, the MPRA will replace the TAMP, but not with regard to tariff fixation. The Bill proposes that tariff fixation would be undertaken by the respective port authorities under guidelines issued by MPRA. The MPRA would also be responsible for monitoring performance of port authorities/private operators, and resolving disputes between port authorities, private operators, and users.[169]

147. Minor ports are regulated by states' maritime boards/departments. Minor ports are allowed to fix their own tariffs, and in order to attract cargo from major ports, they often fix their tariffs at levels lower than the regulated tariffs.[170]

148. According to the authorities, port services, with the exception of pilotage," conservancy", and security, may be delivered by private companies, foreign or domestic.

149. The National Maritime Development Programme (NMDP) is aimed at modernizing infrastructure both at major and minor ports.[171] The NMDP is aimed at increasing overall capacity at major ports by 2012. The Government has subsidized up to 30% of the cost of one project per coastal State.[172] Infrastructure at major and minor ports is developed through public and private partnerships. Private (domestic) partners are fully exempt from income tax for ten years.

150. Despite the Government's efforts, port development continues to face two major challenges: insufficient hinterland connectivity, and shortage in inland cargo handling infrastructure. India's major ports are linked by rail and road to the hinterland. However, further capacity needs to be developed and the quality of roads and rail connectivity needs to be improved to enhance the flow of merchandise in the ports. Current developments in overland transport support this objective

[166] Ennore port is a corporatized port registered under the Companies Act 1956.
[167] The Major Ports Trust Act 1963 was amended by the Port Laws (Amendment) Act 1997 to constitute the TAMP (Tariff Authority for Major Ports online information. Viewed at: http://www.tariffauthority.gov.in/).
[168] Energy and Resources Institute (2009).
[169] Ministry of Shipping online information, "Act and Rules". Viewed at: http://shipping.gov.in.
[170] KPMG (2008).
[171] Ministry of Shipping online information, "Parliament Related Matter: Rajya Sabha Dated 7 Dec 2010". Viewed at: http://shipping.gov.in/index1.asp?linkid=175&langid=1; and Ministry of Shipping (undated).
[172] Ministry of Shipping (undated).

(section (c) below). The lack of adequate land for the construction of container freight stations in ports increases the cost of freight operations.[173]

151. The Policy for Preventing Private Sector Monopoly in Major Ports was issued in 2010 by the Ministry of Shipping. The policy aims at promoting competition in the award of contracts. Thus, if there is one private terminal/berth operator in a major port for a specific cargo, the operator is not allowed to bid for the next terminal/berth for handling the same cargo in the same port.[174]

(b) Air transport

152. The Ministry of Civil Aviation is in charge of policy formulation for and regulation of civil aviation in India. It supervises the Directorate General of Civil Aviation (DGCA) and the Bureau of Civil Aviation Security (BCAS). The DGCA regulates air transport services to/from India; enforces civil air regulations and standards; registers aircraft; and licenses pilots, air engineers, and traffic controllers.[175] The BCAS is in charge of formulating security standards. The Ministry controls Air India Ltd., which operates Air India flights[176]; the Airports Authority of India (AAI), which manages and operates some of India's civil airports (see below); and Pawan Hans Helicopters Ltd., which operates helicopter services for the oil and tourism industries.[177] The AAI surveys India's airspace.

153. The AAI manages 115 of India's 454 airports, including the 17 international airports.[178] The remaining airports are managed by private operators. At AAI-managed airports, the Authority is responsible for slot allocation. At private airports, slots are allocated in coordination with the AAI. All domestic airlines must file for slots with the DGCA and the respective airport operators. Slots are allocated twice a year, based on grandfathered rights or a "use it or lose it" rule.[179] After allocation of slots, new airlines are allotted 50% of the left-over slots. No charge is levied for peak and non-peak slots.[180]

154. Passenger and cargo traffic is operated by 12 scheduled and 127 non-scheduled airlines (January 2011).[181] Air India operates international flights through direct services or under code-share or joint-venture agreements to 57 destinations. Scheduled air services are available to/from 82 airports.[182] Permits to operate scheduled and non-scheduled flights are granted by the DGCA upon

[173] KPMG (2010c).
[174] Ministry of Shipping online information, "Policy". Viewed at: http://shipping.nic.in.
[175] For details, see Directorate General of Civil Aviation online information, "Licensing" and "Aircraft". Viewed at: http://www.dgca.gov.in/.
[176] Air India Ltd. (the National Aviation Company of India Ltd. until November 2010), owns Air India Charter Ltd., which operates low-cost Air India Express flights, Airline Allied Service Ltd., which operates Alliance Air flights, and Air India Transport Services Ltd., which operates ground handling services for Air India, Air India Express, and for some foreign airlines (Ministry of Civil Aviation, 2010a; and Ministry of Finance, 2011a).
[177] Business Portal of India, "Infrastructure: Aviation". Viewed at: http://business.gov.in/infrastructure/aviation.php.
[178] Delhi, Mumbai, and Nagpur international airports are operated under joint ventures (Ministry of Civil Aviation, 2010a).
[179] Under grandfathered rights, slots revert to air carriers that made significant use of their allocations during the previous season. The "use it or lose it" rule applies to mergers. An airline that is merging with another airline, takes control of the slot rights of the latter. If the slots are not used, the airline loses its user rights.
[180] Kacker (undated).
[181] For details, see Directorate General of Civil Aviation online information, "Operators". Viewed at: http://www.dgca.gov.in/.
[182] Ministry of Civil Aviation (2010a).

a no objection certificate from the Ministry of Civil Aviation[183]; permits may be renewed within 60 days after expiry.[184] Under the Aircraft Rules 1937, passenger air carriers must publish airfares for customers' information. In order to increase transparency, since November 2010, carriers must notify their airfares to the DGCA on the first day of every month and any significant changes within 24 hours.[185] FDI is allowed in scheduled air transport services and domestic scheduled passenger airlines up to 49% (automatic route), and in non-scheduled air transport service, non-scheduled airlines, chartered airlines, and cargo airlines up to 74% (subject to governmental approval beyond 49%) (Table AII.4).

155. Average traffic over the review period was 1.1 million passengers and 1.7 million tonnes of cargo. A slowdown in air traffic was registered in 2008/09 due to the world economic downturn.[186] However, in 2010, 1.5 million passengers and 4.7 million tonnes of cargo were transported by air, 19% and 30% more than in 2009, respectively.[187]

156. In 2008, the Government promulgated a Policy for Greenfield Airports (e.g. new projects). To date, two have started operations, 14 projects have been given "in principle" approval, and construction work has started. Projects to upgrade and expand metro airports are scheduled to be completed by 2011 (Chennai and Kolkata), 2012 (Mumbai), and 2026 (Delhi).[188] The AAI in collaboration with private entities which hold 74% of the airports equity, are in charge of the renovations at the Delhi and Mumbai airports.[189] AAI is also in the process of upgrading 35 non-metro airports (12 have already been upgraded) under public private partnerships.[190]

157. FDI in airport projects is allowed up to 100% under the automatic route for Greenfield projects; and up to 100% for existing projects, subject to governmental approval beyond 74% and to sectoral regulations notified by the Ministry of Civil Aviation and Security clearance (Table AII.4). Private domestic partners in airport projects are granted full tax exemption for ten years.[191]

158. Civil aviation construction projects are subject to a 1% cess under the Building and Other Construction Workers' Welfare Cess Act 1996.

159. Tariffs on aeronautical services account for 70%-80% of Indian airports revenues.[192] Until 2008, the AAI operated airports and regulated tariffs for aeronautical services, which led to a conflict of interest, and users complained about the disparity between tariffs and services provided.[193] To address these concerns, the Airports Economic Regulatory Authority (AERA), an independent body, was created in 2009.[194] AERA, which started operations in September 2009, is in charge of regulating airports with annual traffic of at least 1.5 million passengers; 13 airports in India exceed this

[183] For details, see DGCA Air Transport Circular No. 1 of 2009, 14 March 200 (Directorate General of Civil Aviation online information, "Rules: Circulars: Air Transport". Viewed at: http://www.dgca.gov.in/).

[184] DGCA Air Transport Circular No. 2 of 2009, 23 April 2009.

[185] DGCA Air Transport Circular No. 2 of 2010, 19 November 2010.

[186] Ministry of Civil Aviation (2010a).

[187] Ministry of Finance (2011a).

[188] The expansion of the Delhi international airport is a 20-year project aimed at serving a 100 million passengers by 2026 (Ministry of Civil Aviation, 2010a).

[189] Ministry of Civil Aviation (2010b).

[190] Ministry of Civil Aviation (2010a); and Ministry of Finance (2011a).

[191] Kacker (undated).

[192] Centre for Asia Pacific Aviation (2009).

[193] Government of India, Press Information Bureau, Press Release, "AERA Bill introduced in Parliament today", 5 September 2007.

[194] Airports Economic Regulatory Authority of India Act 2008.

threshold and account for 85% of passenger traffic.[195] The Central Government is in charge of regulating airports with annual traffic less than 1.5 million passengers. The AERA is also responsible for, *inter alia*, fixing aeronautical services charges, the passenger service tax, and the airport and the user development fees for major airports; and monitoring the quality and reliability of services rendered at airports.[196] Airport operators collect the aeronautical charges and the taxes fixed by AERA.

160. Ground-handling services are open to FDI up to 74%, subject to sectoral regulations notified by the Ministry of Civil Aviation and to security clearance. However, FDI is only allowed up to 49% under the automatic route. Beyond 49%, approval from the Foreign Investment Promotion Board is required. In addition, non-resident Indians are allowed to invest up to 100% in ground-handling services (Table AII.4).

161. The foreign travel tax (FTT) is levied at approximately Rs 500 for international journeys and Rs 150 on journeys to Afghanistan, Bangladesh, Bhutan, Myanmar, Nepal, Pakistan, Sri Lanka, and the Maldives; the inland air travel tax (IATT), at 10% of the basic fare, is levied on domestic journeys. The IATT is levied if the airfare is paid in foreign currency.

162. A passenger service tax, charged on all air tickets, is set at 10% of the gross fare or Rs 100 per journey, whichever is less, for domestic flights (any class)[197]; and at 10% of the gross fare or Rs 500 per journey, whichever is less, for international economy class flights.[198] Since July 2010, passengers in transit in India or embarking/disembarking in the north-eastern region have been exempt from the service tax.[199]

163. Since 2008/09, an airport development fee and a user development fee have been levied at some of India's major airports on an ad hoc basis to finance projects for the construction and use of upgraded or new infrastructure (Greenfield airports included). This is a temporary measure while airports are being upgraded. Currently, the fees are levied at 13 major airports including Delhi. They are levied on all (international and domestic) departing flights and their rates vary from one airport to another.[200]

164. Aviation routes in India are divided into category I (metro), category II (north-eastern region, Jammu and Kashmir, Andaman and Nikobar and Lakshdeep Islands), and category III (other routes). To ensure at least minimum air service throughout India, air carriers operating a route in category I, are required to deploy at least 10% of their capacity in category II and 50% in category III.[201] India has signed bilateral air services agreements with 108 countries to enhance international air connectivity. There are 74 foreign airlines from 51 countries flying to/from India; and 1,486 weekly

[195] Centre for Asia Pacific Aviation (2009).

[196] Airports Economic Regulatory Authority of India Act 2008.

[197] Journeys to/from airports in the states of Assam, Meghalaya, Manipur, Mizoram, Tripura, Nagaland, Arunachal Pradesh, Sikkim and Bagdogra in West Bengal are exempt.

[198] An education cess (2%) and a secondary and higher education cess (1%) apply on the payable service tax. For details, see Central Board of Excise and Customs online information, "Service Tax: Service Profile". Viewed at: http://www.cbec.gov.in/cae1-english.htm. See also Department of Revenue, D.O.F. No. 334/03/2010-TRU, 1 July 2010.

[199] Service Tax Notification Nos. 25/2010, 22 June 2010; and 27/2010, 22 June 2010. For Service Tax Notifications, see Central Board of Excise and Customs online information. Viewed at: http://cbec.gov.in/cae1-english.htm.

[200] *Business Line*, "User development fee in Hyderabad airport hiked", 29 September 2010; and British Airways online information, "British Airways in India". Viewed at: http://www.britishairways.com/travel/lcinfo/public/en_in#4.

[201] Kacker (undated).

international flights are operated.[202] India maintains a limited open sky policy.[203] In 2008, in order to promote tourism, India liberalized the operation of charter flights to/from India allowing all "inclusive tour packages" and eliminating existing restrictions.[204]

165. India acceded to the ICAO 2001 Cape Town Convention and Protocol, and the 1999 Montreal Convention in 2009.[205]

(c) Overland transport

Road transport

166. Road transport remains the main means of transportation in India, accounting for 60% of freight traffic and 87% of passengers transported. National highways (2% of the network) continue to carry over 40% of the traffic. The Ministry of Road Transport and Highways (MRTH) is responsible for formulating and implementing road transport policies, and the construction and maintenance of national highways. Development of other roads is under the responsibility of the state or local authorities.[206]

167. Improving road infrastructure is one of India's challenges in its quest to sustained economic growth and development. India's roads are heavily congested and have maintenance problems.[207] Infrastructure deficiencies result in a loss of efficiency and higher costs. Annual revenue forgone due to trucks delayed at inter-state check points, is estimated to range from Rs 9 billion to Rs 23 billion.[208] India has been making efforts to improve its infrastructure through the formulation of policies, plans, and projects.[209] However, while some of these initiatives have not been implemented, and others have been delayed, India introduced a new national permit system in 2010 to render inter-state freight traffic more efficient. The permit, which may be obtained from the "home" state, upon payment of fees (i.e. Rs 15,000/per annum per truck and Rs 1,000 as a "home" state authorization fee), authorizes the holder to operate throughout the country.

168. The National Highways Authority of India (NHAI) is in charge of implementing the seven-phase National Highways Development Project (NHDP) launched in 1998. Around 55,000 km of national highways are to be upgraded/built at an estimated total cost of US$60 billion.[210] One of the NHDP's major goals is to improve access to India's major ports and thus ease freight traffic. The NHDP was scheduled to be completed by 2015 but there have been delays reportedly because of, *inter alia*, difficulties in acquiring land and contractors' poor performance.[211] As a response, the Government has taken measures to accelerate completion of the NHDP goals, including by regular monitoring of contracts and simplification of procedures for land acquisition. India is also implementing the National Highways Interconnectivity Improvement Programme, which seeks to

[202] Ministry of Civil Aviation (2010a).
[203] Ministry of Civil Aviation (2009).
[204] An inclusive tour package is a round trip for which a consolidated price is charged for airfare, hotel accommodation, and other ground arrangement services (Directorate General of Civil Aviation, Aeronautical Information Circular No. 12/2008, 6 October 2008).
[205] The Montreal Convention is incorporated into the Carriage by Air (Amendment) Act 2009 (Ministry of Civil Aviation, 2009).
[206] Ministry of Road Transport and Highways online information, "Roads and highways: an overview". Viewed at: http://www.morth.nic.in/writereaddata/sublinkimages/overview_NH3244795788.htm.
[207] Alexander (2008).
[208] Planning Commission (2008).
[209] Ministry of Road Transport and Highways (2009).
[210] National Highways Authority of India (2010).
[211] Ministry of Road Transport and Highways (2009).

improve the entire national highways network by upgrading it to a minimum two-lane standard by December 2014.[212] Several initiatives have been launched to improve the road system at the state level.[213]

169. The development of the road system in India is funded with public resources, the proceedings of the fuel cess, collection of tolls, loans from international institutions, and the private sector. The Government is counting on increased private sector participation in the funding: it expects public-private partnerships with private domestic and foreign investors to provide 60% of funds required to finance the projects envisaged under the NHDP.[214] FDI in road construction and maintenance is allowed up to 100% under the automatic route.

170. Domestic and foreign investors may bid for "concession contracts" (Table IV.11). Contractors must pay an annual nominal fee (Rs 1) to the NHAI throughout the concession period; they may benefit from a number of incentives (Table IV.12), and assistance is granted for, *inter alia*, acquiring land and obtaining clearances (e.g. environmental or pollution clearances).[215] Concessionaires recover the cost of projects by collecting tolls (see below). Private investors may also obtain engineering, procurement, and construction contracts. Foreign participation in contracts awarded under the NHDP is estimated at over US$2.4 billion.[216]

Table IV.11
Road concession contracts, 2011

Concession contracts	Description
Build, operate, and transfer (BOT)	
BOT toll	Concessionaires are required to meet the construction, maintenance, and operation costs. They recover all expenses by collecting toll revenues. Concessions are granted for 15 years to 30 years (not renewable) Concessions are granted through international competitive bidding (ICB), as per the rules established by the Government, with the bidder quoting the lowest VGF (Grant) winning the concession in BOT toll projects, or in BOT annuity projects, the bidder quoting the lowest annuity stream.
BOT annuity	Concessionaires bid for an annuity payment from NHAI that would cover construction, maintenance, and operation costs. The bidder quoting the lowest annuity is awarded the project. The annuities are paid semi-annually by NHAI and linked to performance requirements. Concessions are granted for 15 years to 30 years (not renewable).
Design, build, finance, and operate	Concessionaires are required to meet the cost of design, construction, and annual maintenance. They recover expenses along with the interest by collecting toll revenues. Concessions are granted through international competitive bidding as per the rules established the Government. The period of concession can extend up to 30 years in BOT toll projects, and is determined on the basis of feasibility study report (FSR), which includes a traffic survey. The period of concession is determined as the year in which the stretch of highway achieves the required capacity on the basis of (i) amount of traffic and (ii) 5% CAGR traffic growth. The toll rates or user fee charges are laid down in the statutory rules, which includes a provision for annual adjustment to offset the impact of inflation. A BOT annuity concession is usually limited to 17 years.
Operate, maintain, and transfer (OMT)	Under the OMT system concessionaires are granted the right to charge a toll on any given highway stretch and are responsible for the operation and maintenance of that stretch. Concessionaires must pay a monthly fixed concession fee to the Government. The concession is granted until the cost of operation and maintenance is recovered.

Table IV.11 (cont'd)

[212] Ministry of Finance (2011a).
[213] For example, the Special Accelerated Road Development Programme for the North Eastern Region; schemes for the development of interstate roads and roads of economic importance; and the Pradham Mantri Gram Sadak Yojna initiative, which seeks to expand all-weather rural roads (Ministry of Road Transport and Highways, 2009; and Ministry of Finance, 2011a).
[214] National Highways Authority of India (2010).
[215] National Highways Authority of India (2010).
[216] National Highways Authority of India (2010); and Ministry of Finance (2011a).

Concession contracts	Description
Special purpose vehicle	For port connectivity projects: NHAI finances up to 30% of the project; the remaining funds should come from the trust ports or state governments. Tolls are collected to repay any debts and to finance the operation and maintenance.

Source: National Highways Authority of India (2010), *Guidelines for Investment in Road Sector*, 22 July. Viewed at: http://www.nhai.org/doc/22July10/nhai.pdf; and Ministry of Road and Highways online information, "National Highways Development Projects (NHDP)". Viewed at: http://morth.nic.in/index3.asp?langid=2&sublink2id=173.

Table IV.12
Selected incentives to road concessionaires, 2011

Grants of up to 40% of the cost of the project (including for projects of high economic importance but not commercially viable)
100% tax holiday in any ten-year period out of 20 years in operation
Exemption from the service tax for certain activities related to road construction[a]
Exemption from import duties on imports of high capacity equipment to be used in the construction of roads
Basic customs duty of 0% for imports of goods to be used in specific projects

a Commercial or industrial construction services; site formation and clearance, excavation, earthmoving, and demolition services; work contract services; and management, maintenance, and repair services.

Source: National Highways Authority of India (2010), *Guidelines for Investment in Road Sector*, 22 July. Viewed at: http://www.nhai.org/doc/22July10/nhai.pdf; and Ministry of Road and Highways online information, "National ghways Development Projects (NHDP)". Viewed at: http://morth.nic.in/index3.asp?langid=2&sublink2id=173.

171. High speed diesel oil and petrol (i.e. motor spirits) are subject to a fuel cess (previously additional excise duty or road cess) at Rs 2 per litre, to finance the Central Road Fund. According to the authorities, this cess is charged as part of the additional duty (AD) on imports.

172. Construction projects, including road construction and maintenance, exceeding Rs 1 million are subject to a cess ranging from 1% to 2% of the road construction/maintenance cost.[217]

173. Goods transport agencies are liable for the service tax (10%).[218] However, road transport of fruits, vegetables, eggs, milk, food grains, and pulses is exempt.[219] Exemptions also apply to individual consignments not exceeding a value ranging from Rs 750 to Rs 1,500; and to specific taxable services when provided by a Goods Transport Agency (GTA).

Rail transport

174. India's railway network is managed and operated by Indian Railways, an enterprise fully owned by the Ministry of Railways. Indian Railways, the largest employer in India (1.4 million workers), controls 14 public sector undertakings (PSUs) that perform railway-related works and 5 production units.[220] Although the railways are still reserved for the public sector (Chapter II(4)), private domestic participation has been encouraged in non-core activities, e.g. wagon ownership/leasing, and infrastructure projects.[221]

[217] Building and Other Construction Workers' Welfare Cess Act 1996; and National Highways Authority of India, Policy Matter No. 11041/217/2007/Admn., 26 February 2009.

[218] An education cess (2%) and a secondary and higher education cess (1%) apply on the payable service tax. For details, see Central Board of Excise and Customs online information, "Service Tax: Service Profile". Viewed at: http://www.cbec.gov.in/cae1-english.htm.

[219] Service Tax Notifications Nos. 4/2010, 27 February 2010; and 33/2004, 3 December 2004.

[220] For details, see National Portal of India online information, "Sectors: transport: railways: public undertaking". Viewed at: http://india.gov.in/sectors/transport/index.php.

[221] Energy and Resources Institute (2009).

175. Passenger and freight traffic have increased since 2006/07. In 2009/10, 888 million tonnes of freight (up from 728 million tonnes) and 7.25 billion passengers (up from 6.3 billion) were moved by rail. Trains move over 35% of India's total freight. Rail is used mainly to transport bulk commodities including coal, grains, iron and steel, iron ore, cement, mineral oils (POL), fertilizers, and limestone, which accounted for 89% of the total volume and total value of rail freight in 2009/10. Some 58% of passenger and cargo use 16% of the existing routes; this has led to serious congestion.[222] Moreover, since passenger traffic is given priority over freight, this has implications for trade, as containers reportedly miss their vessels at ports.[223] As a result, Indian Railways is constructing dedicated freight corridors along the western and eastern trunk routes to create additional capacity.

176. To deal with the infrastructure bottleneck, in 2009, the Government launched Vision 2020 to expand and modernize fixed railway infrastructure and the rolling stock; improve freight and passenger services (e.g. dedicated freight corridors, and high-speed corridors); and enhance equipment reliability to achieve zero accidents and failure.[224] Vision 2020 is to be financed through public and private funds.[225] Indian Railways is expected to provide 64% of the total funds, supported by public private partnerships to build the fixed infrastructure. An Accelerated Rail Development Fund is being considered by the Government to fund the remaining 36%.[226] The Vision 2020 aims to improve the connection between the railway system and India's major ports, so that by 2020 some 50% of India's total freight will be transported by rail. This objective is also supported by the Railways Infrastructure for Industry Initiative Policy 2010 and the Railways Policy for Connectivity to Coal and Iron Ore Mines 2011, which are aimed at developing better rail connection to coal and iron ore mines.[227]

177. Rail freight tariffs in India are among the highest in the world.[228] In addition, a series of taxes are levied on rail freight traffic: a 5% surcharge tax (10% on coal); a 7% busy season charge (5% on coal and coke group); a 20% congestion charge on traffic to Bangladesh and Pakistan[229]; a 2% development charge; and a the terminal charge of Rs 40/tonne (Rs 20 for coal and grain, and Rs 45/tonne on iron ore).[230] Freight rebates are granted on certain commodities loaded in privately owned wagons[231], or under the Freight Incentives Schemes and the Special Freight Train Operators Scheme. Freight traffic of fruit, vegetables, and salt are subsidized to arrest inflation. The authorities noted that freight tariffs are kept high in order to subsidize the loss-making passenger segment.

[222] Ministry of Railways (2009a).

[223] Ministry of Railways (2009b); and KPMG (2010c).

[224] Safety has improved during the review period (162 accidents in 2009/10 down from 195 in 2006/07) (Government of India, Press Information Bureau, Press Release, "Economic Editor's Conference 2010", 26-27 October 2010).

[225] Ministry of Railways (2009a).

[226] Ministry of Railways (2009a).

[227] Railway Board Circular No. 2008/PL/9/16, 20 July 2010; and Government of India, Press Information Bureau, Press Releases "Railways' New R3i policy aims at attracting private sector participation in rail connectivity", 30 August 2010; and "Railways Announce New Policy for Connectivity to Coal and Iron Ore Mines", 22 February 2011.

[228] For details, see Indian Railways online information, "Freight info: Freight Rates". Viewed at: http://www.indianrailways.gov.in/view_section.jsp?lang=0&id=0,6,338.

[229] This ranged from 21% to 100% for iron ore over 2006-08.

[230] Ministry of Railways (2009b).

[231] Caustic soda, alumina, furnace oil, ammonia, phosphoric acid, and bulk cement (Indian Railways, Freight Rate Circular Nos. 27 of 2010, 30 September 2010; and 60 of 2009, 29 October 2009. For Freight Rate Circulars, see Indian Railways online information, "Freight Info: Freight Rates: Freight Rate Circulars". Viewed at: http://www.indianrailways.gov.in/view_section.jsp?id=0,1,304,366,555).

178. To increase freight volume and revenue, Indian Railways launched the Policy Guidelines for Freight Incentives Schemes in 2006, which has been since modified. Incentives are in the form of tariff freight discounts under four schemes; discounts are based on the type of commodity, distance, volume or weight, according to the scheme.[232] These discounts may unintentionally result in incentives for the production and/or exportation of certain commodities. Bulk commodities (e.g. coal, coke, and iron ore) and containerized traffic are excluded from the schemes.[233]

179. Since 2007, India has allowed "eligible" operators to use the Indian Railways network to provide merchandise transport services. This is in accordance with the Indian Railways (permission for operators to move container trains on Indian Railways) Rules 2006, which allow licensed private operators to run container trains on the network for both domestic and import/export traffic. Operators must be registered as Indian companies under the Companies Act 1956 and have a minimum annual turnover (Rs 1 billion) prior to applying for a licence. For licensing purposes, rail corridors are divided into four categories based on the expected traffic volume; most operators hold a Category I licence, which covers all routes. Registration fees for licensing range from Rs 100 million to Rs 500 million. Licences are valid for 20 years, renewable for ten years. There are 16 container train operators in India; the state-owned Container Corporation of India held around 75% of the market share in 2009/10.[234] Containerized rail traffic has increased by more than 50% since private operators entered into the market.[235]

180. Private operators of containerized rail transport may carry all goods except for iron ore, minerals, coal, and coke, which are restricted commodities.[236] However, these commodities represent the bulk of freight moved by rail. Private operators are free to set tariffs, and face a number of charges by Indian Railways, including haulage charges for the use of infrastructure[237], a 2% development surcharge on haulage, daily parking and stabling charges, inspection/supervision fees for track maintenance at terminals, and maintenance charges for rolling stock.[238] Haulage charges are based on weight and distance and apply irrespective of the commodity transported, except for "notified" commodities.[239] Haulage charges for "notified commodities" range from Rs 2,553 to Rs 82,242 per container. These rates are valid from 1 March 2011 to 31 August 2011; a 15% concession rebate will apply as from 31 August 2011.[240] Private operators are allowed to handle

[232] The basis for determining the discount varies according to the incentive scheme: under the scheme for loading bagged consignments in open and flat wagons, the discount varies according to commodity; under the scheme for traditional empty flow direction, the discount is based on distance; under the scheme for freight forwarders, it is based on the number of commodities loaded per wagon; and under the scheme for incremental traffic, it is based on weight (for details, see Indian Railways, Freight Rate Circular No. 62 of 2009, 10 November 2009).

[233] Indian Railways, Rates Circular No. 62 of 2009, 10 November 2009.

[234] Despite investment in infrastructure, private operators do not yet compete efficiently against CONCOR's infrastructure (Gangwar and Raghuram, 2010).

[235] Ministry of Railways (2009a).

[236] These commodities should not be transported in containers because of their nature.

[237] Haulage charges are notified in Indian Railways Freight Rate Circulars: Freight Rate Circular No. 32 of 2010 (16 December 2010) set the haulage charges effective as from 1 January 2011.

[238] Gangwar and Raghuram (2010).

[239] Notified commodities are: cement (other than white cement), food grains (other than flours and pulses), chemical manures, iron and steel, bricks and stones (other than marble and ceramic tiles), sugar, oil cakes and seeds, alumina, and petroleum products and gases. For details, see Indian Railways, Freight Rate Circular No. 5 of 2011, 14 February 2011.

[240] For details, see Indian Railways, Freight Rate Circular No. 5 of 2011, 14 February 2011.

container trains at terminals owned by Indian Railways up to October 2011, subject to terminal access and ground usage charges.[241] The service tax (10%) is levied on goods transported by rail.[242]

181. India has continued to open up railways services sector to private investors. In 2010, the Ministry of Railways implemented the Private Freight Terminal Scheme, which allows private operators to build freight terminals and handle third-party cargo[243]; the Special Freight Train Operators Scheme, which allows private operators to run special freight trains for commodities requiring special wagons[244]; and Automobile Freight Train Operator Scheme to allow private operators to transport automobiles.[245]

(v) Tourism

182. In 2007/08, the tourism subsector accounted for 5.9% of GDP and provided direct and indirect employment to some 50 million people. In 2009, 5.1 million foreign tourists visited India, a slight increase over 2007 (5.08 million). Foreign arrivals fell by 3.3% in 2009, due to external shocks such as the 2008 terrorist attacks, the influenza pandemic, and the world economic crisis. Over 2007-09, domestic tourism increased significantly, from 526 million to 650 million visitors.[246]

183. There is no specific legislation to regulate the tourism sector and other related activities in India.

184. The Ministry of Tourism (MoT) is responsible for the development and promotion of tourism. In 2002, the MoT launched the National Tourism Policy to make tourism a major engine of economic growth. The key objectives of the policy are to increase India's competitiveness in the world tourism market; improve, expand, and market tourism products effectively; and develop world-class tourism infrastructure.[247] To support these objectives, the MoT launched 14 schemes, in particular the Product/Infrastructure Development for Destinations and Circuits, to develop tourism products and infrastructure for mega projects and rural tourism[248]; and the Market Development Assistance Scheme, to promote India as a tourism destination. These two schemes accounted for 76% of the Ministry's total outlays in 2010/11. Other schemes are aimed at capacity building in tourism-related activities (Table IV.13).[249]

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[241] Indian Railways, Freight Rate Circular Nos. 59 of 2009, 23 October 2009; and 29 of 2010, 28 October 2010.

[242] An education cess (2%) and a secondary and higher education cess (1%) apply on the payable service tax. For details, see Central Board of Excise and Customs online information, "Service Tax: Service Profile". Viewed at: http://www.cbec.gov.in/cae1-english.htm.

[243] Coal, coke, and iron cargo are excluded.

[244] For example, bulk cement, bulk fertilizers, fly ash, selected chemicals/petrochemicals, bulk alumina, steel products, vegetable oil, molasses, and caustic soda (Government of India, Press Information Bureau, Press Releases, "Indian Railways Finalize Policy on Private Freight Terminal", 9 June 2010; and "Indian Railways Finalize Policy on Special Freight Train Operator Scheme", 10 June 2010).

[245] Government of India, Press Information Bureau, Press Release, "Railways' Policy on Automobile Freight Train Operator Scheme", 11 August 2010.

[246] Ministry of Tourism (2010a).

[247] Ministry of Tourism online information, "Policy and Schemes". Viewed at: http://tourism.gov.in/.

[248] Mega projects refer to "the development of destinations/circuits of national importance in a holistic and integrated manner" (Ministry of Tourism, 2010a).

[249] For details, see Ministry of Tourism online information, "Policy and Scheme". Viewed at: http://tourism.gov.in/. See also Ministry of Tourism (2010b).

Table IV.13
Selected support schemes for tourism, 2011
(Rs million)

Objective	Assistance	Outlay 2010/11
Scheme for Product/Infrastructure Development for Destinations and Circuits		
Major destinations and circuits development		
Develop new tourism products to the world standard	Ministry of Tourism bears 100% of the project cost or a maximum of Rs 250 million for destination development and Rs 500 million for circuit development	5,450
Rural Tourism Infrastructure Development		
Develop rural tourism[a]	Maximum of Rs 5 million	70
Scheme of Assistance for Large Revenue Generating Projects (revised)		
Large projects with a tourism impact[b]	Grant to prepare the detailed project report, up to 50% of the actual cost, subject to a maximum of Rs 2.5 million per project; Amount of subsidy for private sector/public private partnership projects determined through a competitive bidding process by the concerned state governments/union territory administrations; Subsidy capped at Rs 500 million, subject to a maximum of 25% of total project cost or 50% of equity contribution of the promoters, whichever is lower	150
Scheme for Support to Public Private Partnerships in Infrastructure (Viability Gap Funding)		
Promote public-private partnerships in infrastructure development, to deal with the lack of availability of physical infrastructure across different sectors, which is hindering economic development	Government support capped at 20% of total project cost; Rs 1 billion for each project may be sanctioned by the empowered institution, subject to budgetary ceilings indicated by the Finance Ministry; proposals up to Rs 2 billion may be sanctioned by the empowered committee; and amounts exceeding Rs 2 billion may be sanctioned by the empowered committee with the approval of Finance Minister	..
Market Development Assistance Scheme for Promotion of Domestic Tourism		
Unexploited potential for domestic tourists	Approved tourism service providers would be provided financial assistance on travel expenses by air only, subject to a ceiling of Rs 30,000 per trip. Trips must be with Air India or alliance partner	..
Financial Assistance to the IHM/FCIS/IITTM/ITIS/polytechnic institutes/universities/govt. colleges/govt. vocational schools/public sector undertakings[c]		
Create institutional infrastructure that may foster and facilitate professional education and training specific to tourism, travel, and hospitality industry	Assistance varies, according to project, from Rs 5 million (minor civil works at universities and other colleges, and polytechnics) to a maximum of Rs 20 million (expenditure on civil works, equipment, furniture, and fixtures in industrial training institutes)	95
Market Research: Professional Services		
Use of professional services from consultants/agencies for: tourism-related surveys, studies, plans, and market research for making available relevant data/information/report/inputs to the Ministry of Tourism for policy making and planning purposes; and feasibility studies and detailed project reports (DPRs) for specific tourism projects	Maximum assistance of Rs 1 million provided for preparation of feasibility studies and DPRs for projects under the Scheme of Product/Infrastructure Development for Destination and Circuits	5

.. Not available.

a The following activities may be taken up under the Scheme: improvement of village surroundings and access roads; illumination in villages; improvement in solid-waste management and sewerage management; procurement of equipment directly related to tourism (e.g. water sports, adventure sports, and eco-friendly modes of transport for moving within the tourism zone); refurbishment of the monuments; reception centres; and tourist accommodation.

b Tourist trains, cruise vessels, cruise terminals, convention centres, golf courses open for domestic and international tourists, health and rejuvenation facilities, last-mile connectivity to tourist destinations (air and cruise including heli-tourism) etc., would qualify for assistance.

c IHM: Institute of Hotel Management; FCIs: Food Craft Institutes; IITTM: Indian Institute of Tourism and Travel Management; and ITIs: Industrial Training Institutes.

Source: Ministry of Tourism online information, "Policy and Schemes". Viewed at: http://tourism.gov.in; and Ministry of Tourism (2010), *India Tourism Statistics 2009*, November. Viewed at: http://tourism.gov.in/.

185. In order to promote India as a tourism destination, the MoT has launched a series of overseas initiatives (e.g. the Incredible India and the Visit India 2009 campaigns), and has started to exploit India's potential in other types of tourism, e.g. rural, adventure, and healthcare tourism as well as eco-tourism.[250] India has emerged as a world destination for healthcare tourism.[251] In 2006, it started to deliver long-term tourist visa (for five years) with multi-entry facilities (for a minimum 90-day visit) for nationals of 18 countries.[252] In January 2009, India implemented the Visa-on-Arrival Scheme for nationals of 11 countries.[253] Also, new and revised air services agreements, and a new policy for foreign charter flights (section (iv)(b)) have boosted tourism. The Directorate General of Tourism, under the MoT, which has offices throughout India to assist tourists, has opened overseas offices to assist MoT in promoting India abroad.[254]

186. The MoT in cooperation with the UN Environment Programme and the UN World Tourism Organization, has developed and issued 37 quality standards to be applied by tourism operators in order to ensure sustainable development tourism.[255]

187. The MoT licenses travel agents, tour operators[256], and tourist transport operators, on a voluntary basis. To be licensed, operators must comply with a series of eligibility criteria stipulated by the MoT.[257] Licences are granted by the MoT upon recommendation of a committee comprising the regional tourism director and a member of the relevant business association.[258] In 2011 (May), there were 601 licensed operators, including 336 travel agents.[259] All types of licences are valid for five years (renewable) and fees amount to Rs 3,000. A foreigner may not operate as a travel agent, tour operator or tourist transport operator.[260] However, foreigners are allowed to provide interpretation services to tourists, within the annual limit of 500 interpreters.

188. The service tax (10%) is levied on travel agents, tour operators, and on tourist transport operators.[261]

189. There are regional, state, and local tourist guides in India. Regional guides are licensed by the MoT; state and local guides are licensed by the state and local tourism agencies.[262] Regional guides

[250] Ministry of Tourism (2010a).

[251] Swain and Sahu (2008).

[252] Argentina, Brazil, Chile, Belgium, Finland, France, Germany, Iceland, Japan, Korea (Rep. of), Luxembourg, Mexico, Netherlands, New Zealand, Norway, Spain, Switzerland, and Viet Nam (Ministry of Tourism, 2010a).

[253] Finland, Japan, Luxembourg, New Zealand, and Singapore (January 2010); and Cambodia, Indonesia, Laos, Myanmar, the Philippines, and Viet Nam (January 2011) (Ministry of Tourism online information, "Statistics". Viewed at: http://www.tourism.gov.in/). Visas are for a single entry and a maximum 30-day stay. They are delivered only at Delhi, Mumbai, Kolkata, and Chennai international airports, subject to a fee (US$60) (Incredible India online information, "Visa Info". Viewed at: http://www.incredibleindia.org/newsite/cms_page.asp?pageid=798).

[254] Ministry of Tourism (2010a).

[255] Ministry of Tourism (2010a).

[256] Inbound tour operators, adventure tour operators, and domestic tour operators.

[257] For details, please see Ministry of Tourism online information, "Guidelines: Travel Trade". Viewed at: http://tourism.gov.in/.

[258] Travel Agents Association of India, Indian Association of Tour Operators, Adventure Tour Operator Association, Association of Domestic Tour Operators of India, and Indian Tourist Transporters Association.

[259] Ministry of Tourism (2010a); and information provided by the authorities.

[260] Information provided by the authorities.

[261] In addition, an education cess (2%) and a secondary and higher education cess (1%) apply on the payable service tax. For details, see Central Board of Excise and Customs online information, "Service Tax: Service Tax Profiles ". Viewed at: http://www.cbec.gov.in/cae1-english.htm.

[262] Chowdhary and Prakash (2008).

must live in the region where they will provide services. Licences issued by the regional tourism offices, are valid for three years (renewable).[263] The Tourist Guide Federation of India fixes the prices charged by guides in consultation with the Indian Association of Tour Operators and the Travel Agents Association of India.[264] Foreigners may not register as regional/state/local guides. Tourist guides are exempt from the service tax.[265]

190. The MoT classifies accommodation establishments on a voluntary basis.[266] Classification is valid for five years (two years for B&Bs). Fees range from Rs 3,000 (silver category B&B) to Rs 25,000 (5-star deluxe hotel).[267] At end 2010, India had 2,483 hotels with 117,815 rooms.[268] Hotel accommodation is dominated by five Indian-owned chains. The state-owned India Tourism Development Corporation Ltd. runs a chain of hotels. Most major international hotel chains operate under management or franchise contracts.[269]

191. In 2010, India estimated a shortage of some 150,000 hotel rooms, in particular in the budget category.[270] As a result, the MoT has advised "land-owning agencies" and state governments to put land aside for the construction of hotels and to allow construction contracts on public-private partnerships or revenue-sharing basis. Since 2001, subsidized loans have been available for construction of budget accommodation hotels under the Incentive to Accommodation Infrastructure Scheme; in 2010-11, Rs 100 billion were allocated under the scheme.[271] Access to credit for the development of hotels has been increased and offered at reduced interest rates[272]; and the MoT has eased the procedure to obtain B&B classification to encourage applications.[273] Tax incentives are available for hotel development under the Income Tax Act: a five-year tax holiday is granted to new 2- to 4-star hotels located in the National Capital Territory of Delhi (and some neighbouring districts[274]) which started operations between 1 April 2007 and 1 July 2010[275]; and to 2- to 4-star hotels starting operation in UNESCO World Heritage sites[276] between 1 April 2008 and 31 March 2013.[277] In addition, as of 2010, capital expenditure in new hotels is fully deductable for income tax purposes.[278]

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[263] Ministry of Tourism online information, "Guidelines: Others". Viewed at: http://tourism.gov.in/.

[264] Chowdhary and Prakash (2008).

[265] Central Board of Excise and Customs online information, "Service Tax: Service Tax Profiles ". Viewed at: http://www.cbec.gov.in/cae1-english.htm.

[266] Hotels, B&Bs, guesthouses, resorts, and tented accommodation.

[267] Ministry of Tourism online information, "Guidelines: Accommodation". Viewed at: http://tourism.gov.in/.

[268] Ministry of Tourism (2010b).

[269] Investment Commission of India online information, "Services: Tourism". Viewed at: http://www.investmentcommission.in/tourism.htm.

[270] Ministry of Finance (2011a).

[271] Ministry of Tourism (2010b).

[272] Ministry of Tourism (2010a).

[273] Ministry of Tourism (2009).

[274] Faridabad, Gurgaon, Gautam Budh Nagar, and Ghaziabad (Ministry of Tourism, 2009).

[275] Originally the incentive was granted for hotels developed up to 31 March 2010. An extension to 31 July 2010 was granted to speed up the construction of the accommodation needed for the Commonwealth Games in October 2010 (*The Financial Express*, "Tourism ministry seeks 5-yrs tax holiday extension for Games hotels till July 31", 20 January 2010).

[276] Excluding Delhi and Mumbai districts.

[277] Ministry of Tourism (2010a).

[278] Ministry of Finance (2011a).

192. Foreign presence is not allowed in travel agencies, tour operator or tourist transport operator. FDI inflows remain low (1.81% of the overall FDI inflows over April 2000-December 2010[279]) due to, *inter alia*, multiple taxes on tourism services at central and state level[280]; and high service tax on tourism services providers (see above).[281]

193. India has signed 46 bilateral agreements on tourism cooperation.[282]

[279] Ministry of Commerce and Industry online information, "FDI in India Statistics". Viewed at: http://dipp.nic.in/fdi_statistics/india_fdi_index.htm.

[280] For instance, daily hotel rates of at least Rs 3,000 are subject to a 10% expenditure tax levied by the Government and a luxury tax of 5%-25% levied by state governments (Srinivas Subbarao, 2008).

[281] Srinivas Subbarao (2008).

[282] Ministry of Tourism (2010a).

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