Europe India Chamber of Commerce

Newsletter

Issue: 84 Volume: 9 **May 2015**

Indian economy to grow 7.5 percent in 2015-16

With decline in oil and commodity prices, the Indian economy is expected to grow by 7.5 percent in 2015-16, 7.9 percent the next fiscal and 8 percent in 2017-18, the World Bank said in its India Development Update report released on 28 April.

"Aided by a supportive external environment, in particular the sharp decline in oil and commodity prices, the Indian economy has taken strong strides towards higher growth and enhanced stability. Growth has accelerated, inflation has declined, the current account deficit has narrowed, and external reserves have increased," the report said.

The update is published twice a year.

According to the report, the growth acceleration is conditional on the growth of investment picking up to 11 percent during FY2016 - FY 2018, the report adds.

"The government has made progress in several policy areas and long-term prospects for growth remain bright for India," Onno Ruhl, World Bank Country Director in India was quoted as saying in a statement.

"The current situation offers an opportunity to further strengthen the business environment and enhance the quality of public spending. Continuous strong momentum in these reforms will further unleash the productivity that Indian firms need in order to create jobs and become globally competitive," he added. To achieve higher investment growth, the Update calls for fiscal reforms that protect public capital spending; financial sector reforms; and reforms in the business environment - all of which can help unlock private investments.

Specifically the update calls for the timely implementation of the Goods and Services Tax (GST); rationalizing current expenditures, especially on subsidies; delivering on divestment plans, ensuring greater tax buoyancy than has been realized lately; encouraging PPP projects; and addressing balance sheet issues of public sector banks.

According to World Bank the recent economic turnaround and the outlook also rest crucially on oil and commodity prices remaining low. Reiterating the need for the government to further insulate the economy from the global price of oil, the Update suggests weaning the fiscal outcomes more fully from oil prices; by encouraging alternative sources of energy; creating additional fiscal buffers by using petroleum taxation more actively, as well as rationalising subsidies.

The Update sounds a word of caution on the risks from potential tightening of the US monetary policy.

"While the Reserve Bank of India has taken preventive measures to reduce external vulnerability, and has built international buffers as a "first line of defense", the risk remains, warranting vigilance," said Poonam Gupta, senior economist, World Bank.

On the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), the report said the scheme has the potential to drastically cut poverty. However an, analysis of household survey data from Bihar shows the programme's actual impact on rural poverty is only about one percentage point against its potential of reducing poverty by at least 14 percentage points.

According to the study, the full potential of MGNREGS may not be realised due to the supply side being too slow to respond to the demand for work on the scheme; workers not being paid the full scheme wage; delays in wage payment; and awareness of how to demand work being limited.

Airbus backs Modi's 'Make in India' campaign with $2-bn outsourcing pledge

French aerospace major Airbus has offered to support Prime Minister Narendra Modi's `Make In India' initiative with an increase in its Indian outsourcing to $2 billion, even as the aircraft manufacturer expressed its readiness to manufacture helicopters, satellites and military transport planes in India. The offer was made during Modi's visit to Airbus's manufacturing facility at Toulouse, in southern France on 11 April.

Airbus Group CEO Tom Enders said in a statement his company was "ready to manufacture in India, for India and the world," including final assembly lines and supply chains.

Airbus also assured Modi that it will increase its outsourcing from India from $400 million at present to $2 billion (around Rs12,400 crore) over the next five years.

Airbus already operates two engineering centres in India – for civil and defence projects – as also a research and technology centre. The company did not give details of its outsourcing and potential expansion. During his visit to France, India signed 20 agreements and MoUs in energy, transport and space exploration in addition to an agreement to buy 36 Rafale combat jets.

At Hannover Messe, it was all about 'Make in India' with Prime Minister wooing investors and promoting strong India-Germany ties.

Promising a stable business environment, Prime Minister Narendra Modi wooed German investors saying opportunities in India are "seamless" and huge for a vibrant economic partnership.

Inaugurating the Hannover Messe, a business fair, with German Chancellor Angela Merkel, the Prime Minister said India is working on a "predictable and transparent" environment to open up investments.

"We are creating an environment that is stable, where rules will not be changed frequently and there will be no surprise elements," he said.

Strongly pitching for his 'Make in India' campaign, he said it was not a "slogan or a brand, but a new national movement". Describing Germany as a "valuable partner", Modi said the two countries share a close and warm relationship that has grown in depth and diversity.

"India is open and ready to embrace the whole world," he said while noting that there was a new level of interest among countries for partnership with India for enhancing trade, investment and in a host of other areas.

Modi's address was preceded by a cultural extravaganza where an animated lion depicted the 'Make in India' logo, drawing laud applause from the big gathering. Modi said the lions are a "symbol of new India" carring the message of frienship and promise of partnership.

Welcoming the Prime Minister, Merkel said Germany was ready to give a new dimension to partnership with India.

Noting that cooperative federalism existed in Germany like in India, she said sincere efforts will be made to bolster trade on all fronts. At the same time, she underlined the need to speed up innovations.

Earlier Modi met top German business leaders in Hannover and told them about steps being taken by his government to ensure the ease of doing business in India.

Modi, who reached Hannover in north Germany from Paris, held a roundtable meet with CEOs from leading German companies like Daimler, Bombardier, Voith and Metro AG, on the first day of his three-day visit to the country. About 15 CEOs attended the meet followed by one-on-one meetings with Modi. The Prime Minister told them he has already taken steps to ensure doing business is easy in India and has identified around 80-90 things in this regard, sources said.

Giving an assurance to them, he said he was personally monitoring implementation of these steps. Later speaking at another function, Modi said India presents vast opportunities as it was modernising and developing. He particularly referred to opportunities in areas of manufacturing, infrastructure development, Ganges cleaning and solid waste management.

The overall exchange of goods and services between the two countries was valued at around around 15.96 billion euros last year, a drop of 1.14 billion euros from the level of 16.10 billion euros registered in 2013.

While India's exports to Germany rose marginally to 7.03 billion euros in 2014, its German imports dropped to 8.92 billion euros from 9.19 euros in the previous year, according to the Federal Statistical Office.

Germany is the 8th largest foreign investor in India. Its foreign direct investments in India during January-November 2014 was valued at around $995.7 million.

More than 1,600 Indo-German collaborations and around 600 Indo-German joint ventures are currently in operation.

In France Modi projected India as a land of "immense opportunities" and invited investments and technology from across the globe.

Modi said he wants countries to compete among themselves in terms of doing business in India, contending that it will be beneficial for not only India but the entire world.

Clearly the industrial fair at Hannover seems to be all about Germany and the partner nation this year — India. Prime Minister Narendra Modi and German Chancellor Angela Merkel visited various pavilions set up by 14 Indian states and by German and Indian companies.

India Inc was also present in significant numbers at the Messe. While Gautam Adani of the Adani Group and Nikhil Meswani of Reliance Industries Limited were seen moving around together, chairman of Tata Sons Cyrus Mistry was seen interacting with the Madhya Pradesh commerce and industry minister Yashodhara Raje Scindia. Even Ajay Shriram of the Shriram Group, CK Birla of the CK Birla Group and BK Goenka of the Welspun Group were also present at the Indian pavilion.

The Indian Pavilion was designed on the principle of Vaastu with the pavilion split in 9 squares and the ceiling having a flower. The pavilion showcasing Indian culture and the country's progress in the space technology, was designed and developed over the last two-and-half months.

Though the government has made a big effort in promoting 'Make in India' in Germany, contrasting opinions emerged out of the event. While RIL's chief representative in Europe, Mohan Murti said that more effort was needed to develop a perspective and perception about India which was missing, the head of another major company in India said that, "The ease of doing business has not happened on the ground and it is time now for the government to get it rolling."

New trade policy aims at doubling exports in five years

India's new five-year `Foreign Trade Policy 2015-20' unveiled recently aims at raising the country's exports to $900 billion by fiscal year 2019-20, against total exports of $465.9 billion in the 2013-14 fiscal year that ended on 31 March 2014.

Nirmala Sitharaman, minister of commerce and industry India's merchandise exports for the first 11 months of the 2014-15 fiscal year stood at $286.58 billion, according to data released by the government.

Unveiling the `Foreign Trade Policy 2015-20', minister of commerce and industry Nirmala Sitharaman said the new trade policy provides a framework for increasing exports of goods and services, generating employment and increasing value addition in the country.

She said the focus of the new policy is to support both the manufacturing and services sectors, with special emphasis on improving the 'ease of doing business'. Towards this the new policy incorporates two new schemes - Merchandise Exports from India Scheme and Services Exports From India Scheme.

Merchandise Exports from India Scheme (MEIS) aims at export promotion of specified goods to specified markets while Services Exports from India Scheme (SEIS) aims at increasing exports of notified services (against a plethora of schemes earlier), with different conditions for eligibility and usage.

E-commerce exports of handloom products, books/periodicals, leather footwear, toys and customised fashion garments through courier or foreign post office would also be eligible to get benefit of MEIS (for values up to Rs25,000). These measures would not only capitalise on India's strength in these areas and increase exports but also provide employment.

In order to encourage procurement of capital goods from indigenous manufacturers under the EPCG scheme, the specific export obligation has been reduced to 75 per cent of the normal export obligation.

This will promote the domestic capital goods manufacturing industry. Such flexibilities will also help exporters to develop their productive capacities for both local and global consumption, the minister said.

The new policy also aims to boost exports of defence and hi-tech items.

The commerce minister also offered sops to exports from SEZs, which, she said, had seen phenomenal growth, significantly higher than the overall export growth of the country, in recent times. The government has now decided to extend benefits of both the reward schemes (MEIS and SEIS) to units located in SEZs to give a further boost to exports from SEZs.

The new trade policy proposes to move towards paperless working in 24x7 environment. The government had recently reduced the number of mandatory documents required for exports and imports to three, which is comparable with international benchmarks. Now, a facility has been created to upload documents in exporter/importer profile and the exporters will not be required to submit documents repeatedly. Attention has also been paid to simplify various 'Aayat Niryat' forms, bringing in clarity in different provisions, removing ambiguities and enhancing electronic governance.

For the ease of doing business, government proposes to empower manufacturer-exporters by allowing them to self certify their manufactured goods in phases, as originating from India with a view to qualifying for preferential treatment under various bilateral and regional trade agreements. This `Approved Exporter System' will help these manufacturer exporters considerably in getting fast access to international markets, she said.

A number of steps have been taken to encourage manufacture and exports under 100 per cent EOU/EHTP/STPI/BTP schemes. These include a fast track clearance facility for these units, permitting them to share infrastructure facilities, permitting inter unit transfer of goods and services, permitting them to set up warehouses near the port of export and to use duty free equipment for training purposes.

She promised to have regular interactions with all stakeholders, including state governments to achieve the national objectives.

With Prime Minister Narendra Modi's "Make in India" campaign in the backdrop, India's new five-year Foreign Trade policy was unveiled with great expectations. Declaring that she wants to "make India a significant factor in world trade by 2020", Commerce Minister Nirmala Sitharaman announced the foreign trade policy 2015-20.

She said mega regional agreements like the proposed Trans Pacific Partnership (TPP), Regional Comprehensive Economic Partnership (RCEP) will impove the country's future trade. In its blueprint for enhancing exports, the government has merged all earlier export promotion schemes under the two plans

- the Merchandise Exports from India Scheme (MEIS) and the Served from India scheme (SFIS) for services exporters.

The import duty exemption scrips valued at 10 percent of foreign exchange earned, which is given to service exporters as an incentive, have now been made tradeable and can be used for service tax, customs and excise duty payments.

"There is no conditionality in any of the scrips issued under these schemes, (MEIS, SEIS)," Sitharaman said.

Moreover, as a measure to boost the special economic zones (SEZs) units within them will now be able to avail the benefit of the MEIS and SEIS schemes. The new policy has come at a time when India's merchandise exports continue to log a decent growth, having expanded by just 0.88 percent in the first 11 months of the current fiscal.

Declining for the straight third month, India's exports fell by over 15 percent to $21.54 billion in February, even as the trade deficit narrowed to $6.85 billion on the back of declining international crude oil prices.

India aims to raise its exports to $900 billion by fiscal year 2019/20, the government said in a statement recently. India's total exports were $465.9 billion in the 2013/14 fiscal year that ended on March 31, 2014, the statement said.

In the first 11 months of the 2014/15 fiscal year that ended on last month, merchandise exports stood at $286.58 billion, government data showed. Merchandise exports account for about one-fifth of the $2 trillion Indian economy.

Cabinet clears Rs1,00,000-cr smart city, urban transport projects

The union cabinet of Indian government on 29 April gave its nod to the government's flagship 100 smart cities project and the new urban renewal mission with a total outlay of about Rs1,00,000 crore, to be spent under two new urban missions over the next five years.

The cabinet approved the `Smart Cities Mission' and the `Atal Mission for Rejuvenation and Urban Transformation' (AMRUT) for 500 cities with outlays of Rs48,000 crore and Rs50,000 crore, respectively.

Under the Smart Cities Mission, Prime Minister Narendra Modi's pet project, each selected city would get central assistance of Rs100 crore per year for five years. Smart city aspirants will be selected through a 'City Challenge Competition' intended to link financing with the ability of the cities to perform to achieve the mission objectives. Each state will shortlist a certain number of smart city aspirants as per the norms to be indicated and they will prepare smart city proposals for further evaluation for extending central support.

The mission intends to promote adoption of smart solutions for efficient use of available assets, resources and infrastructure with the objective of enhancing the quality of urban life and providing a clean and sustainable environment.

Special emphasis will be given to participation of citizens in prioritising and planning urban interventions. It will be implemented through 'area based' approach consisting of retrofitting, redevelopment, pan-city initiatives and development of new cities.

Under retrofitting, deficiencies in an identified area will be addressed through necessary interventions as in the case of Local Area Plan for downtown Ahmedabad.

Redevelopment enables reconstruction of already built-up area that is not amenable for any interventions, to make it smart, as in the case of Bhendi Bazar in Mumbai and West Kidwai Nagar in New Delhi.

Pan-city components could be interventions like Intelligent Transport Solutions that benefit all residents by reducing commuting time.

Under smart cities initiative, focus will be on core infrastructure services like adequate and clean water supply, sanitation and solid waste management, efficient urban mobility and public transportation, affordable housing for the poor, power supply, robust IT connectivity, governance, especially e-governance and citizen participation, safety and security of citizens, health and education and sustainable urban environment.

Smart city action plans will be implemented by special purpose vehicles (SPVs) to be created for each city and state governments will ensure steady stream of resources for SPVs.

AMRUT is the new name for the Jawaharlal Nehru National Urban Renewal Mission (JNNURM), which has been renamed after NDA's first Prime Minister Atal Bihari Vajpayee.

The two missions are interlinked. AMRUT adopts a project approach to ensure basic infrastructure services relating to water supply, sewerage, sewage management, storm water drains, transport and development of green spaces and parks with special provision for meeting the needs of children. Implementation of this mission will be linked to promotion of urban reforms such as e-governance, constitution of professional municipal cadre, devolving funds and functions to urban local bodies, review of building bye-laws, improvement in assessment and collection of municipal taxes, credit rating of urban local bodies, energy and water audit and citizen-centric urban planning.

The cabinet also approved central funding under AMRUT to the projects sanctioned under JNNURM and not completed. JNNURM projects sanctioned during 2005-2012 and which have achieved physical progress of 50 per cent availing 50 per cent of central assistance released and those sanctioned during 2012-2014 will be supported till March 2017.

Accordingly, 102 and 296 projects, respectively, will get central support for balance funding to complete these projects.

The central spending approved for next five years under the two new missions which are interlinked assumes significance in the backdrop of the approved Plan outlay of Rs42,900 crore for JNNURM that was implemented over nine years between 2005 and 2014. Out of this, actual central assistance released was Rs36,398 crore only.

Also, in a significant departure from JNNURM, central government will not appraise individual projects. Central assistance will be to the extent of 50 per cent of project cost for cities and towns with a population of up to 10 lakh and one-third of the project cost for those with a population of above 10 lakh.

The government expects the projects to bring in a minimum investment flows of over Rs2,00,000 crore into urban areas over the next five years since states and urban local bodies would mobilise matching resources ranging from 50 per cent to 66 per cent.

In addition, substantial private investments would be mobilised by states and urban local bodies through PPP model as required to meet the project cost.

Just 5 states account for 91% of all foreign firms in India

The presence of foreign companies operating out of India is overwhelmingly skewed in favour of five states, which account for over 90 per cent of the 3,250-odd foreign firms functioning in the country. An assessment of the state-wise distribution of these foreign firms operating in India shows that Delhi, Maharashtra, Karnataka, Haryana and Tamil Nadu account for 90.9 per cent of these companies, primarily on account of these companies choosing to set up their base in at least one main city in each of these states — Mumbai, Bangalore, Gurgaon and Chennai, apart from national capital of Delhi.

Even as Mumbai is widely touted as the financial nerve centre of Indian business, Delhi is clearly the top draw for foreign firms when it comes to setting up base in India. The data, culled out from the department of industrial policy and promotion statistics and the MCA21 repository, takes into account the registered offices of the foreign firms and not their manufacturing bases, which, in case of a number of manufacturing sector companies such as Delhi-based unit of Japanese trading firm Mitsui and Co. India, Mumbai-based German engineering firm Siemens India, Gurgaon-based India unit of Swiss consumer goods major Nestle and the Chennai-based India unit of US auto major Ford Motor Corp, extend beyond the state where they are headquartered.

Interestingly, industrialised Gujarat figures below Uttar Pradesh and even West Bengal, thanks largely to a sizeable presence of foreign firms in the Noida industrial cluster in UP and Kolkata in West Bengal. Andhra Pradesh (the undivided state) figured high up in the list of states with a presence of foreign firms, at number six in the overall pecking order.

STATE/UT-WISE DISTRIBUTION OF FOREIGN COMPANIES FUNCTIONING IN INDIA

STATE/ UT	NUMBER	STATE/ UT	NUMBER	STATE/ UT	NUMBER
Andhra Pradesh*	78	Jharkhand 1		Rajasthan	7
Assam	1	Karnataka	270	Tamil Nadu	202
Bihar	1	Kerala	23	Uttar Pradesh	56
Chandigarh	3	Madhya Pradesh	4	Uttarakhand	1
Delhi	1476	Maharashtra	772	West Bengal	54
Goa	4	Orissa	9	**Grand Total**	**3254**
Gujarat	47	Pondicherry	3		
Haryana	239	Punjab	3		

*Undivided Andhra Pradesh
(as on 30.06.2014)
Source: DIPP/MCA21 repository.

A senior executive with a Delhi-based engineering goods firm said that the Capital is invariably the first choice as the home base among global firms for two predominant reasons –because the initial contact is invariably with the Central government and having a base in the national capital helps in pitch forking the initial entry strategy of the firm and going about the maze of government clearances. Also, the embassies and liaison offices are located in Delhi, which is another factor weighing in favour of Delhi. In the case of domestic firms, though, Mumbai is the clear choice when it comes to setting up the company headquarters.

The other interesting aside is that data from the last three years shows that 50 per cent of new foreign firm that have set shop in India are invested in just one of the 16 broad sectoral subgroups — business services, a general term that describes work supporting a business and includes sectors such as information technology, consulting and finance. Apart from other service sectors, including trading and the personal and community services head, the presence of foreign firms in the manufacturing sector is largely restricted to the equipment and machinery segment.

According to government norms, foreign company planning to set up business operations in India can incorporate a company under the Companies Act, 1956, as a joint venture or a wholly-owned subsidiary. Foreign equity in such Indian companies can be up to 100 per cent depending on the requirements of the investor, subject to equity caps in respect of the area of activities under the Foreign Direct Investment policy.

MNCs too take the Sanand business route

The world is descending on Sanand in Gujarat. Over the last three years, Germany's Nivea, Switzerland's Nestle, Inbisco of Indonesia and Chipita from Greece among over two dozen multinationals - mostly auto ancillaries, engineering and FMCG — who have parked in the auto hub where Tata Motors and Ford India run huge car plants.

These foreign firms have or are in the process of investing Rs 5,000 crore in Sanand, about 25 km from Ahmedabad. Better infrastructure, road and port connectivity as well as easy availability of land prompted these multinational giants to prefer Sanand over other locations. Traditionally, Vadodara has been the hub of multinational investments in Gujarat.

"Companies get all the approvals under one roof when they decide to set up plant," added the officials.

These multinationals are from various geographies such as the US, Germany, France, Italy, Israel, Japan, Thailand, China and Indonesia. Recently, Greek snack manufacturer Chipita has bought land for its plant in Sanand Industrial Estate and is investing close to Rs 600 crore. Nivea India, an affiliate of the Beiersdorf AG, has started construction of its greenfield plant with an investment of Rs 1,000 crore. It is Nivea's first plant in India.

Bosch Rexroth (India) Ltd, subsidiary of German automation giant Bosch Group, Japan's Hitachi Hirel and Colgate-Palmolive (India) already have their plants commissioned.

Some other companies from Japan and Germany are looking at Sanand Industrial Estate, developed by Gujarat Industrial Development Corporation (GIDC), which is spread across 2,000 hectares. In addition, Tata and Ford plants have 1,000 hectares, making Sanand industrial cluster one of the largest in Gujarat.

"The entire development of the estate was carried out as per international standards and requirements of multinationals," said government officials.

India received $70 bn of $583 bn global remittances in 2014: World Bank

Total overseas remittances to India from Indians working abroad in 2014 reached $70 billion, accounting for 12 per cent of global remittance flows of $583 billion. China was next in the list with $64 billion in total remittance inflows, followed by the Phillippines with total receipts of $28 billion.

At $583 billion, global remittances in 2014 ware more than double of all overseas development assistances (ODA) put together and these funds can be channelled into investments in infrastructure projects, says the latest issue of the World Bank's Migration and Development Brief, released recently.

''With new thinking these mega flows can be leveraged to finance development and infrastructure projects," the report quoted Kaushik Basu, World Bank chief economist and senior vice president, as saying.

Officially recorded remittances to the developing world are expected to reach $440 billion in 2015, an increase of 0.9 per cent over the previous year, the World Bank report said, adding that remittance flows to developing countries are expected to recover in 2016 to reach $459 billion, rising to $479 billion in 2017.

Global remittances, including those to high income countries, are projected to grow by 0.4 per cent to $586 billion. In line with the expected global economic recovery next year, the global flows of remittances are expected to accelerate by 4.1 per cent in 2016, to reach an estimated $610 billion, rising to $636 billion in 2017, the report said.

Although remittance growth rates in 2015 are expected to be the slowest since the global financial crisis in 2008-09, the number of international migrants is expected to exceed 250 million in 2015, and their savings and remittances are expected to continue to grow, the Bank said.

Growth in global remittances, including those to developing countries, will slow sharply this year due to weak economic growth in Europe, deterioration of the Russian economy and the depreciation of the euro and rouble, says the report.

The slowdown in the growth of remittances this year will affect most developing regions, in particular Europe and Central Asia where flows are expected to decline by 12.7 per cent in 2015. The positive impact of an economic recovery in the US will be partially offset by continued weakness in the Euro area, the impact of lower oil prices on the Russian economy, the strengthening of the US dollar, and tighter immigration controls in many remittance source countries, according to the report.

The top five migrant destination countries continue to be the United States, Saudi Arabia, Germany, Russia and the United Arab Emirates (UAE). The top five remittance recipient countries, in terms of value of remittances, continue to be India, China, Philippines, Mexico and Nigeria.

The global average cost of sending $200 held steady at 8 per cent of the value of the transaction, as of the last quarter of 2014. Despite its potential to lower costs, the use of mobile technology in cross-border transactions remains limited, due to the regulatory burden related to combating money laundering and terrorism financing, says the Brief. International remittances sent via mobile technology accounted for less than 2 per cent of remittance flows in 2013, according to the latest available data.

In addition to sending money to their families, international migrants hold significant savings in their destination countries. 'Diaspora savings' attributed to migrants from developing countries was estimated at $497 billion in 2013, the latest data available. "Total remittances in 2014 reached $583 billion. This is more than double the ODA in the world. India received $70 billion, China $64 billion, the Philippines $28 billion. With new thinking these mega flows can be leveraged to finance development and infrastructure projects," said Kaushik Basu.

"Israel and India have shown how macro liquidity crises can be managed by tapping into the wealth of diaspora communities. Mexican migrants have boosted the construction sector. Tajikistan manages to nearly double its consumption by using remittance money. Migrants and remittances are clearly major players in today's global economy," he pointed out.

In a special analysis on leveraging migration for financing development, the Brief estimates that as much as $100 billion in migrant savings could be raised annually by developing countries by reducing remittance costs and migrant recruitment costs, and mobilising diaspora savings and philanthropic contributions from migrants.

''The moderation in the growth of remittances will be hard on many poor people. The affected countries may have to consider creative ways of smoothing the shock. Fortunately, migration and remittances can be leveraged for innovative financing,'' said Dilip Ratha, lead economist, Migration and Remittances, at the World Bank's Development Prospects Group and head of the Global Knowledge Partnership on Migration and Development (KNOMAD).

''As to long-term financing needs for the Post-2015 Development Goals, I would love to see a bullet train system in India, an international airport in Nigeria, another Suez Canal in Egypt, a hydro-project in Pakistan, a community development programme in the Philippines, all financed by mobilizing the power of remittances and diaspora savings.''. Future inflows of remittances can be used as collateral to facilitate international borrowings by national banks in developing countries. Remittances can also facilitate access to international capital markets by improving sovereign ratings and debt sustainability of recipient countries.

Because remittances are large and more stable than many other types of capital flows, they can greatly enhance the recipient country's sovereign credit rating, thus lowering borrowing costs and lengthening debt maturity, says the Brief. In a recent development, rating agencies have started accounting for remittances in country credit ratings, but given data difficulties, there is still room for further improvement.

And, the joint World Bank-IMF low-income country Debt Sustainability Framework now includes remittances in evaluating the ability of the countries to repay external obligations and their ability to undertake non-concessional borrowing from other private creditors.

Swedish companies bullish on India's investment climate

Swedish companies doing business in India are bullish about India's investment climate. According to the seventh Business Climate Survey, there is a positive shift in the perception of Swedish companies about investments and expanding their operations in India.

The survey captures the input from 110 Swedish companies established in the country from sectors such as IT, telecom, automotive, service sector, engineering products, defence, direct Sales and retail. The Business Climate Survey is conducted annually by the Swedish Chamber of Commerce in India in partnership with the Embassy of Sweden in New Delhi, Consulate General in Mumbai and Business Sweden.

Fredrika Ornbrant, Consul General of Sweden, Mumbai said, "There is a positive shift in the perception of Swedish companies about investments and expanding their operations in India as it is evident in the results of the Business Climate Survey 2014-15. Over 90 per cent of the companies surveyed believe India's business and investment climate is favourable as compared to 51 per cent in 2013 and expect it to improve in the coming three years. This shift in perception can be mainly accredited to the initiatives undertaken in India to provide a reliable and foreseeable business environment."

The number of Swedish companies in India has increased from 85 in 2007 to 153 in 2015. Around 12 new companies were established in India during 2014, and 12 more are right now in pipeline. The cumulative foreign direct investments from Sweden to India until 2013 were $2.15 billions. In 2013 alone, the foreign Direct Investments from Sweden to India were $ 350 Million up 16 per cent from 2012.

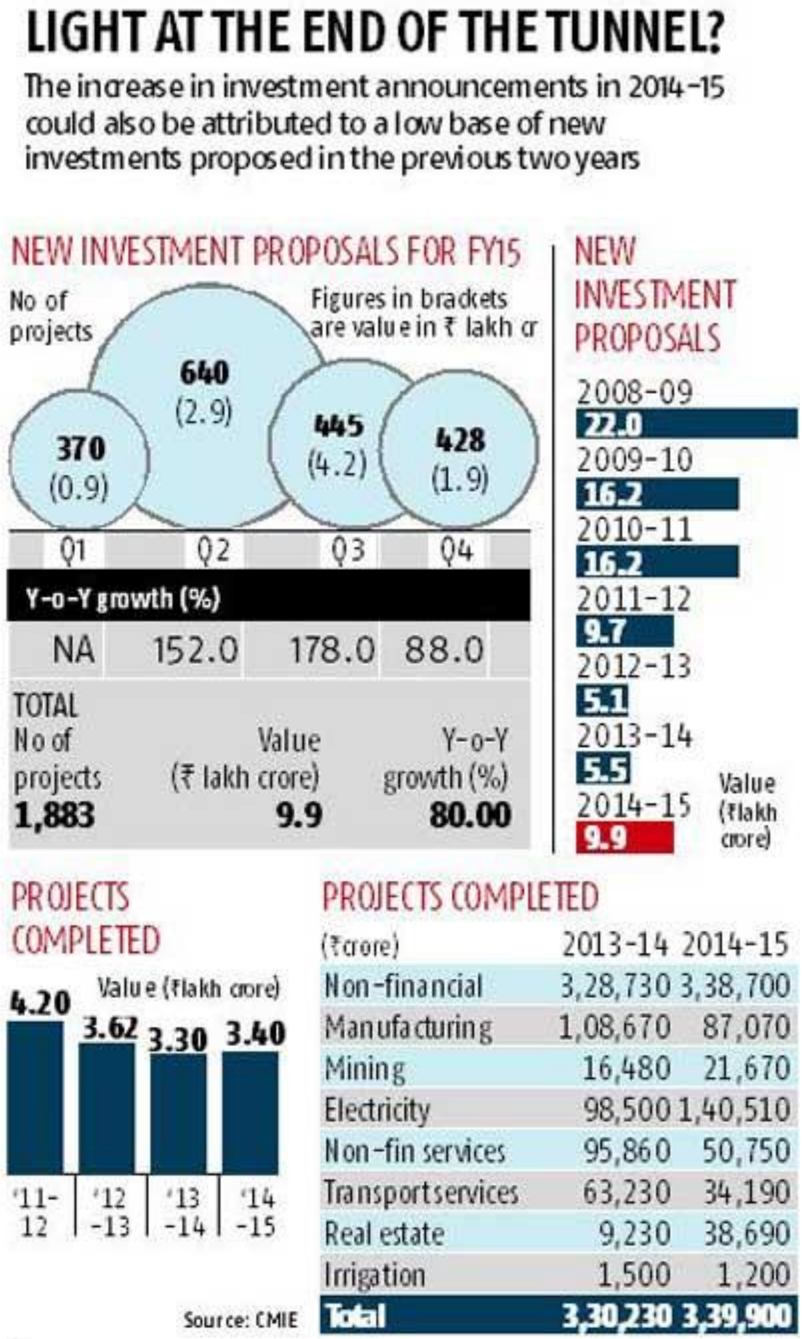
According to the survey findings, a majority of companies identified taxation regulation and rates, import regulations and custom duties as the most significant challenges in doing business in India. Parag Satpute, country manager Sandvik and board of director, Swedish Chamber of Commerce India said, "That Sweden 'makes business in India' is clear and it is encouraging to see that three out of four companies have increased their investments in 2014 regardless of the negative outlook earlier years."

India Inc's investment plans at four-year high

India Inc is slowly putting its investment plans back on track. Data from the Centre for Monitoring Indian Economy (CMIE), a city-based research house, show "investment intentions" in 2014-15 were 80 per cent more than in 2013-14. At Rs 9.9 lakh crore, it was the highest in four financial years.

An encouraging sign is the private sector, which was slow in announcing plans in the June quarter of 2014-15, made up for it in the subsequent quarters. In the quarter ended March this year, its share in overall new investment announcements rose to 75 per cent from 46 per cent in the previous two quarters. Of the 449 projects, 266 (entailing a combined investment worth Rs 1.46 lakh crore) were proposed by the private sector.

However, the sharp increase in 2014-15 might also be due to a low base of new investments proposed in the previous two years. Mahesh Vyas, CMIE's managing director, said, "2014-15 turned out to be slightly better than recent years. There hasn't been any burst of new investment activity or a spurt in the implementation of existing projects. We see a gradual and small increase in both new investment proposals and the completion of existing projects. It is somewhat worrisome that new investment proposals during the March quarter were lower than in the preceding two quarters.". He also sounded a word of caution on the concentration of new investments in a region. "The concentration of these new investments in Gujarat (40 per cent) implies the rest of country sees a significant slowing of investment proposals."



During the quarter ended March this year, Gujarat was the favourite investment destination. Of the new investment announcements, 40 per cent (Rs 786 billion worth of investments) was attracted by the state alone. The second and third preferred destinations were Karnataka and Uttar Pradesh, attracting investments worth Rs 295 billion and Rs 267 billion, respectively.

Norway offers 70 million NOK to Norwegian and Indian institutions

The Norwegian Centre for International Cooperation in Education (SIU) and the Norwegian Research Council is furthering the cooperation between Norwegian and Indian institutions through a new programme, dubbed "INTPART". 70 million NOK has been designated for the programme.

Norway wants to build strong relationships between research institutions in Norway and abroad and further contribute to making world leading academic research groups. The programme will make it possible for even more Norwegian and Indian institutions and researchers to start a partnership, with India among the focus countries.

Arvid Hallen, Director of the Norwegian Research Council, considers this to be an important programme for making sound institutional cooperations and to further stimulate several research areas.

He said, "In order to develop world class research groups, Norwegian researchers have to go abroad - and researchers from abroad have to come to Norway."

He added that the new programme may cover several different academic activities such as seminars, summer courses and exchange programmes, as well as joint degrees and long term institutional collaborations.

The focus countries are India, China, Japan, Brasil, Canada, Russia, South Africa and USA. Only Norwegian universities, university colleges and research institutes can apply.

Foreign funds told to pay up $6 billion in MAT dues

Foreign portfolio investors in Indian capital markets have been told to pay up $5-6 billion in unpaid taxes on their "untaxed gains" over the past years. These funds have not paid the minimum alternate tax (MAT) on their long term gains.

Foreign funds investing in secondary markets in India have so far paid 15 per cent on their short-term gains on investments in listed equity and 5 per cent on gains from bonds, but have not paid anything on their long-term gains.

The tax authorities have been sending notices to these funds since late last year, asking them to pay MAT of around 5 per cent.

A five per cent MAT added to 15 per cent tax on the short-term gains potentially brings overall tax on market gains of these funds to 20 per cent.

There are an estimated 8,000 registered FPIs in the country on whom the stock markets have been dependent.

These funds have made an overall net investment of $226 billion (over Rs11,00,000 crore) in Indian markets and these funds are now propelling the market now.

The number of defaulting funds may rise substantially as assessments are still in progress, and with more notices being served on many more cases, the overall tax demand may well cross $10 billion, sources say.

FPI investments in Indian markets include over Rs8,00,000 crore in stocks and Rs3,00,000 crore in debt markets. In fiscal 2014-15, FPIs made a net investment of Rs2,70,000 crore into the Indian markets.

MAT is generally applicable to domestic and foreign companies with a "place of business in India", and who are required to draw up a balance sheet and a profit and loss account for their business income.

However, the Tax Department began issuing tax notices to FIIs as well late last year.

Finance minister Arun Jaitley had, in the Union Budget this year, proposed to amend the relevant sections so as to specifically "provide that income from transactions in securities (other than short term capital gains arising on transactions on which securities transaction tax arising to an FII) is not chargeable and shall be excluded from the chargeability of MAT."

However, these "amendments will take effect from 1 April 2015 and will, accordingly, apply in relation to the assessment year 2016-17 and subsequent assessment years".

This means that FPIs can claim exemption from MAT beginning next year and not for the interim, for which they have to pay.

Tax officials have pointed out that the amendment is "prospective" and that there is nothing to suggest that it would apply retrospectively, offering relief to defaulters.

Till 31 March this year, about 100 FIIs been served notices by the tax department for the controversial minimum alternate tax (MAT) of 20 per cent, while they are now being followed up with assessment orders.

Interestingly, this is the first time since 1993, when FIIs were allowed to invest in the Indian markets that such investors have been asked to pay MAT.

These funds are now seeking retrospective exemption for FY15. However, the provisions that were brought into the Finance Bill, say that such exemptions can only be effective from 1 April 2015 for the coming fiscal (FY16).
