

Reserve Bank of India



Policies Covered In The Edition

SECTOR SPECIFIC REPORT

(Banking & Finance)

1. Overseas Investment
Rules and Regulations
2022

2. Jan Samarth Portal to
ease out Loan Process
under Government's
Credit Linked Schemes

3. "International Trade
Settlement in Indian
Rupees" issued by
Reserve Bank of India

01 | Overseas Investment Rules and Regulations 2022

Recently the Ministry of Finance, Government of India has notified new overseas investment rules through Foreign Exchange Management (Overseas Investment) Regulations, 2022. It is supposed to make the process of investment in foreign entities much easier for domestic corporates and organizations and increase the compliances for loan defaulters or the people/entity already facing investigation regarding overseas investments.

The new rules are in coherence with the amendment in the Foreign Exchange Management Act 2015, Outward Investment Rules of Government of India. Earlier overseas investment in India was governed under the Foreign Exchange Management (Transfer or Issue of Any Foreign Security) Regulations, 2004 along with the Foreign Exchange Management (Acquisition and Transfer of Immovable Property Outside India) Regulations, 2015. The recent notification will reduce the multiple compliances related to approvals and disclosures related to overseas investment by interested Indian entities.

The Reserve Bank of India (RBI) administered new rules are going to set the new standard related to investment, immovable property acquisition and transfer outside India by any Indian entity. A No-Objection Certificate (NOC) will be mandatory for persons with having Non-performing Asset Class bank accounts, wilful defaulters and people under investigation related to financial irregularities by the central investigating agencies like the Enforcement Directorate (ED) or Central Board of Investigation (CBI), etc within 60 days of applying the application.

Several payment methods have also been covered under the new rules related to making an overseas investment by interested Indian entities. They can make the permissible investments per the new notification in foreign entities through any of the following payment modes:

By means of remittance through banking channels

From funds held in accounts maintained in accordance of this act

By swapping of securities

Using the proceeds of American Depositary Receipts/ Global Depositary Receipts/ Stockswap of such receipts/ External Commercial Borrowings as per the provision of this act

Regulations made for making overseas direct investment or financial commitment by means of debt by an Indian entity.

Earlier, an Indian entity was not allowed to make an overseas investment if the foreign entity has already had an investment (minor/major) in any Indian company but under the new rule, the provision is restricted to foreign entities with less than two subsidiary layers. But the new regulation put restrictions on the Indian entities and people engaging in some of the following mentioned sectors. These are also not permitted to

make an overseas investment under the new rules without the RBI's specific approval:

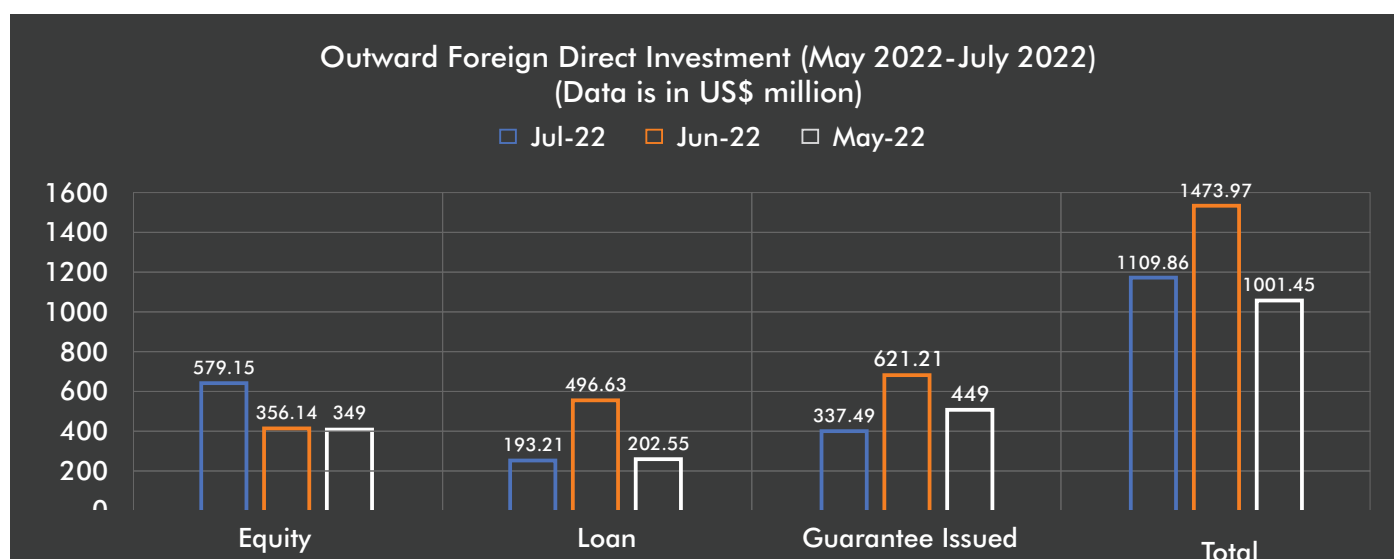
Real Estate

Related to Any form of Gambling

Related to dealing with Financial Products Involving Indian Rupee

It will surely bring new opportunities for Indian startups also and help them to expand their services and grab the market beyond Indian borders to build successful partnerships abroad. But the regulation simultaneously puts a bar on making Direct Investments in Overseas financial startups. It will add up knowledge sharing and enhance the adaption of international best practices in Indian startups and corporates. This will bring great opportunities for investors to make larger investments and expand the profitability of their portfolios overseas.

To better understand the scenario, the three months overseas investment data issued by RBI can be seen under the graph between May 2022- July 2022 which shows the varying interest of Indian entities to make a foreign investment through different instruments over the period. It will surely be going to fuel up and stabilize through these new provisions of RBI.



Source: https://rbi.org.in/Scripts/Data_Overseas_Investment.aspx

The regulations will ease the compliance burden on Indian investors upto a great extent as the new provisions have lifted the restriction of the joint venture entities to make an overseas investment of less than 10% stake in any of the foreign entities. These clear and firm regulations will boost the ongoing business and economic dynamics for the Indian entities and help them to make direct investments overseas.

As under the notification, many overseas investment-related transactions have been brought under the automatic route which was earlier in the approval route category, it will make the process simple along with saving cost and time. Thus, the scenario will help India to make its position firm in the global funding ecosystem and encourage Indian entities to make overseas investments and get benefitted from these clear regulatory guidelines over time.

02 | Jan Samarth Portal to ease out Loan Process under Government's Credit Linked Schemes


On 6th June 2022, the Government of India launched the “Jan Samarth” portal to facilitate the credit linking of various government programs and schemes as a part of its Azadi Ka Amrit Mahotsav celebration in the combined iconic week celebrations of the Ministry of Finance and Ministry of Corporate Affairs. It will be a common platform to serve round-the-clock credit delivery process under government schemes of different ministries and departments such as education loans, agricultural infrastructure loans, business activity loans and livelihood loans.



JanSamarth







Beneficiaries can avail loans under 13 Central Government Subsidy Schemes, spread across 4 loan categories:


-  **EDUCATION LOAN:** For pursuing studies in/outside India
-  **AGRI INFRASTRUCTURE LOAN:** For development of agricultural infrastructure, clinics & business centers
-  **BUSINESS ACTIVITY LOAN:** For setting up new business or expanding existing business
-  **LIVELIHOOD LOAN:** For individuals and Self Help Groups



JanSamarth




Six Schemes Available For Business Activity Loan:

-  Prime Minister's Employment Generation Programme (PMEGP)
-  Weaver Mudra Scheme (WMS)
-  Pradhan Mantri MUDRA Yojna (PMMY)
-  Pradhan Mantri Street Vendor Aatmanirbhar Nidhi Scheme (PM SVANidhi)
-  Self Employment Scheme for Rehabilitation of Manual Scavengers (SRMS)
-  Stand Up India Scheme



JanSamarth

Three Schemes Available For Education Loan:

-  Central Sector Interest Subsidy (CSIS)
-  Padho Pardesh
-  Dr. Ambedkar Central Sector Scheme



JanSamarth

Three Schemes Available For Agri Infrastructure Loan:

-  Agri Clinics And Agri Business Centers Scheme (ACABC)
-  Agricultural Marketing Infrastructure (AMI)
-  Agriculture Infrastructure Fund (AIF)

The portal is designed to enhance the efficiency of credit-linked Central and State government schemes as it is equipped with the following integrating features to facilitate the end beneficiary and speed up the credit process:

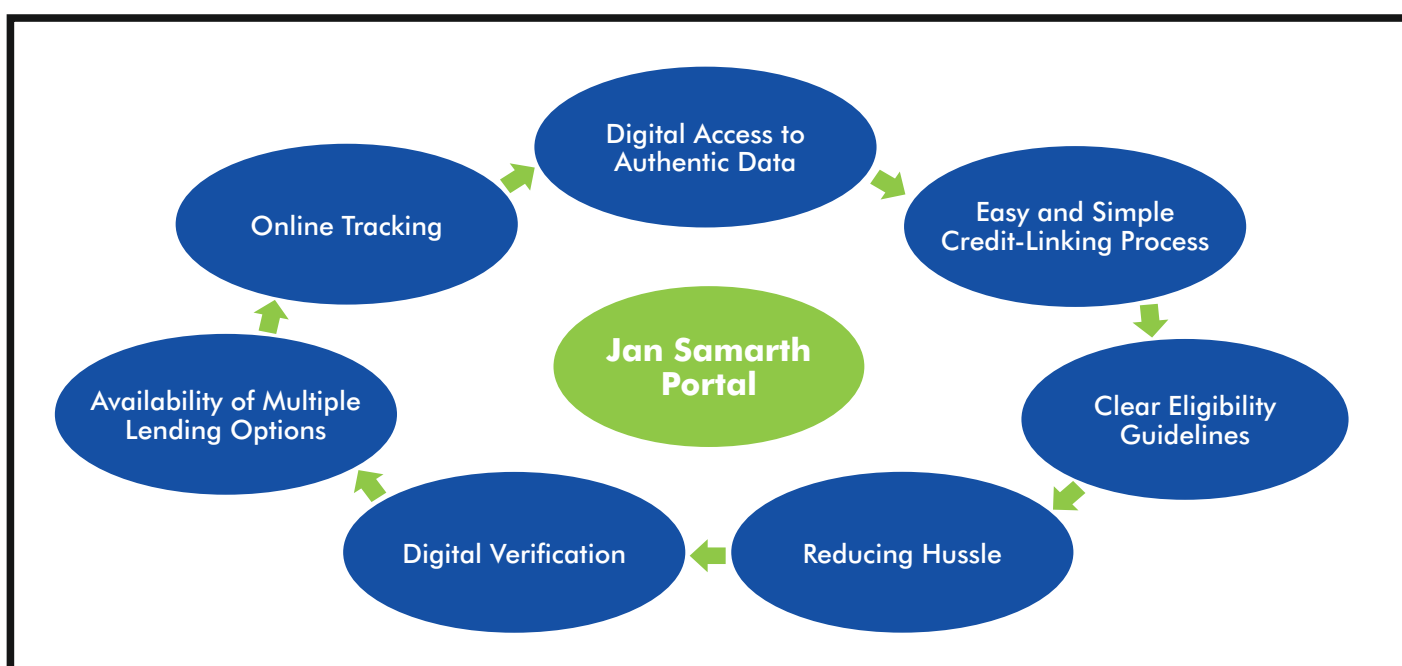
- Connects all the stakeholders such as banks/financial institutions, government agencies (Central/ State), Nodal agencies and beneficiaries through a common digital platform
- Eases the loan application process
- Enhance Transparency
- 24*7 Tracking Mechanism

To date total of 13 government schemes of more than 8 ministries are brought under the ambit of the Jan Samarth Portal. through this. Some of the quick statistics related to this newly launched one-stop solution portal and the multiple stakeholders involved in it are as under:

Schemes	Ministries	Loan Category	Nodal Agencies	Lenders on Platform
13	8+	4	10+	125+

Source: <https://www.jansamarth.in/home>

The advanced technology and smart analytics used by the portal provide multiple digital integrations at a single platform such as the Unique Identification Authority of India (UIDAI), Central Board of Direct Taxes (CBDT), National Securities Depository Limited (NSDL), etc. It helps to automate the loan process and provides the following multiple benefits to its stakeholders:

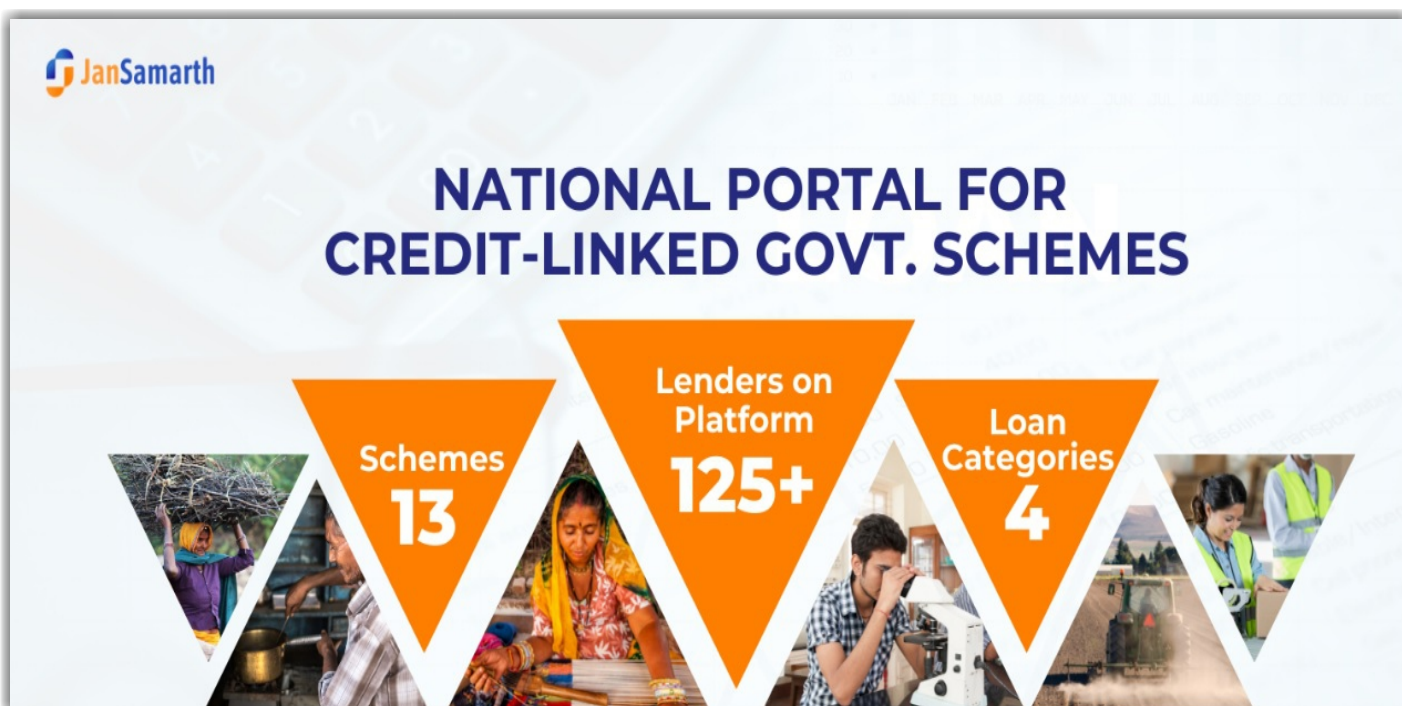


This digital platform thus directly connects beneficiaries to the lenders under a clear guiding framework with online tracking and monitoring facility. It helps to provide inclusive growth to some of the important sectors of the Indian economy directly and also boosts the development of several other sectors of the economy on a direct or indirect basis. It will help to increase the higher education level as well as skilling up Indian youth in and outside the country and prepare them for better future opportunities in employment as well as an entrepreneurial ecosystem in India or abroad.

The portal firmly ensures the end-to-end coverage of the government's credit-linked schemes at the pan-India level and works as a gateway to easy loan assistance. It will pave the way for an open architecture to enable central and state government ministries/ departments/ institutions to bring their welfare schemes on this platform and increase its ambit and coverage by benefiting maximum beneficiaries with complete transparency.

This launch has marked a milestone to move ahead towards the Citizen centric approach under "Good Governance" concerning the earlier government-centric approaches used in government welfare schemes. The portal is thus going to create impact in the life of lakhs of students, farmers, entrepreneurs, MSME owners, etc and help them in making their dream come true on the ground level which can be unrealized in the absence of financial assistance.

The digital process of credit linking in government schemes will bring benefits to the end beneficiaries in a simple, hassle-free and yet speedy way. Thus, the scheme is going to make a paradigm shift in the lending process related to various credit-linked government schemes powered by digital verification with the use of technology and provide impetus to the overall growth of the country soon.



In the latest development to further strengthen the Indian economy, the Reserve Bank of India (RBI) has put forth a mechanism to allow invoicing and payments in international trade with partner countries in Indian Rupee (INR) through a circular on "International Trade Settlement in Indian rupees" on 11 July 2022. For this purpose, a special INR Vostro Account must be needed that is processed only through any of the Authorised Dealer (AD) Banks in India.

The Rupee Vostro Account will be opened through banks of any foreign partner country through ADs in India based on prior approvals from RBI on the details related to the arrangements. This account will facilitate the foreign entities to make their trade settlements in Indian Rupee with Indian importers and exporters. The mechanism is devised to ensure strict compliance with the jurisdiction of the Financial Action Task Force (FATF). It will check for the correspondent foreign bank account, that it must not be from an updated FATF Public Statement on High Risk & Non-Co-operative Jurisdictions and from the country or jurisdiction on which FATF counter measures have been applied.

Now the cross-border trade-related transactions (exports/ imports) under the Foreign Exchange Management Act, 1999 will be dominated by raising the invoice for International trade in Indian Rupees (INR). For this, the exchange rate between the respective currencies of two trading partner countries will be based on the market scenario. Thus, it will increase the ambit of making overseas trade settlement transactions in domestic currency (INR) also which was earlier allowed only for Nepal and Bhutan.

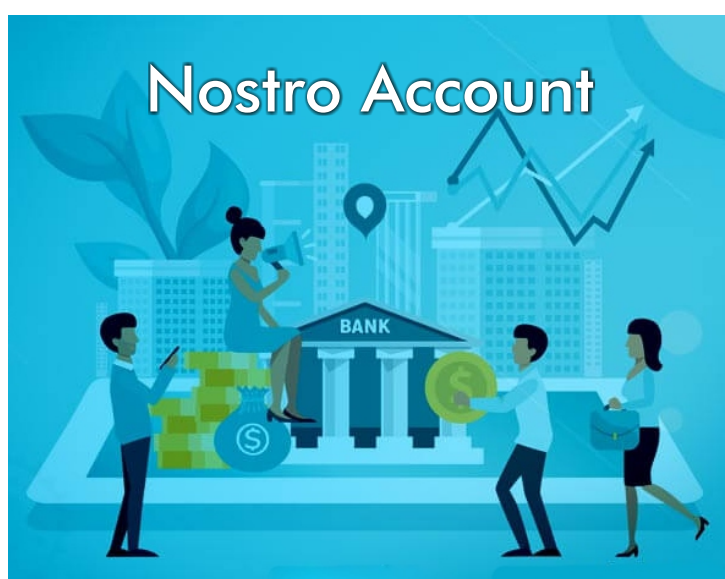


The circular also has provision for use of accumulated Rupee surplus balance in the Vostro Accounts for making permissible capital and current account transactions basis the mutual agreements of the trading partner countries. The RBI has also allowed the use of the balance in these accounts to use for the purposes such as advance flow management in export or import, investing in Government Treasury Bills, Government Security Bonds, etc.

The mechanism is placed to strengthen the Rupee in the International market and promote global trade between countries that have a common interest in making the trade settlements in INR and present India as a key player in the growth of global trade. This will also ease the trade settlement process for India with the countries like Russia which have faced strict sanctions from the west in the past and help India to make global trade decisions purely based on the benefit of the Indian economy and its citizens in the long run. Some of the major benefits expected to fall on India's side due to this mechanism are:



The mechanism will also address the foreign exchange fluctuation of the Indian currency and reduce the risk of continuous weakening of the Indian Rupee primarily against the US Dollar and Euro as it will significantly reduce the demand for foreign reserves for trade settlements among interested trading partners and promote the exchange of domestic currency among this community. The measure will also positively impact the India-Russia long-term trading companionship. It will also give a boost to Russia's shrinking international trade after the recent.



sanctions made by the US and Europe amid the Russia-Ukraine war and benefit India to get a better deal in the global trade of energy purchases.

This noteworthy trade settlement mechanism in Indian Rupee will increase India's role in global trade and strengthen the Indian currency by increasing its demand for foreign exchange among interested trading parties over time. It will also help India to project its domestic currency as a dominant trading currency across the globe platforms and open up new avenues of growth and trade for the Indian economy.

Resources

1. <https://pib.gov.in/PressReleaseDetail.aspx?PRID=1853679>
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