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Dear readers,

Albert Einstein aptly summed up the significance of *good governance*—a concept that cannot be overemphasised in current times: *'If people are good only because they fear punishment, and hope for reward, then we are a sorry lot indeed.'*

Measures such as easing the regulatory burden, simplifying processes and procedures, and inclusive financing extend multifarious benefits to a wide range of stakeholders. Moreover, the benefits of these measures—both direct and indirect—are expected to feed back into the long-term macro-fiscal condition of an economy.

In this context, it is noteworthy that the previous calendar year witnessed the continuation/adoption of certain reforms which are targeted towards enhancing the quality of governance in the country. Given their importance, I would like to share some perspectives on a couple of such key reforms in this 13th edition of the Public Finance Newsletter, besides sharing knowledge and updates on the public finance and economics domain.

The 'Feature article' in this issue analyses India's performance on the Ease of Doing Business (EoDB) Global Index and then reviews the latest state-level assessment rankings in this context. The article then explores how the framework can further be strengthened and offers an approach which the Government of India (GoI) may consider to encourage a more business-conducive and investor-friendly environment in future. In the 'Pick of the season' section, the author explains the concept of digital financial inclusion (DFI), reviews current barriers and challenges in deepening its process, and shares select examples of global good practices in DFI and also what lies ahead in DFI. This becomes more topical in light of the demonetisation exercise that was recently implemented in India.

'Round the corner' provides news updates in the areas of good governance policies and practices across the globe, along with key papers released in recent times and reference links. The 'Our work' section presents an overview of one of our ongoing engagements, the 'Odisha Modernising Economy, Governance and Administration (OMEGA) Programme'. A significant part of our responsibility under this programme entails supporting the creation of an enabling business environment in the state of Odisha.

I would like to thank you for your overwhelming support and response. Your contributions have helped in making this newsletter an effective medium for sharing information.

To share your experiences in the public sector and governance space with us, please write to me at *ranen.banerjee@in.pwc.com* or to our editorial team.

You may also read this newsletter on the go by downloading the PwC 365™ app on your iOS and Android devices. The app is available on iTunes and Google Play. For more about the app, please visit *http://www.pwc.in/publications/pwc-365-app.html*

Lastly, I would like to take this opportunity to wish you all a happy and prosperous New Year!

Happy reading!

Sincerely,

Ranen Banerjee
Partner
Public Sector and Governance

Feature article

Measuring the ease of doing business in India

One of the key elements defining the quality of governance and, to an extent, the maturity of an economy is the robustness and transparency of the regulatory framework within which the private sector functions. As ample empirical evidence has borne out, availability of resources and fiscal benefits alone are not enough to attract industries and investments. A significant role is played by the set of rules and regulations prevalent in an economy, which governs the process cycle of establishment, operation and winding up of businesses. Promoting ease of doing business (EoDB) involves the creation of efficient and simple regulations to enable a hassle-free environment for businesses to operate and perform. In the current world order, as businesses are looking to expand their reach across the globe and entrepreneurs unleash a wave of start-up activities, countries must ensure that reengineered and technology-enabled processes are in place to provide prompt services to such entrepreneurs and businessmen.

For policymakers, the recognition of the ever-increasing importance of the quality of the regulatory environment in determining the volume of business activity and hence economic growth emphasises the need for measuring this EoDB. One such popular and widely referred to measure is the EoDB index, which was first published by the World Bank in 2004. Its objective and verifiable framework provides insight into the factors that enable certain economies to create a friendly and prompt EoDB environment backed by empirical data.

In this article, we have analysed India's performance on the global EoDB index. Among the various reforms undertaken by GoI in recent times to improve the EoDB climate, we have zeroed in on the launch of a parallel assessment at the state level since 2015. This annual assessment is expected to provide a magnified view of India's global ranking on the EoDB index, as well as foster the spirit of competitive federalism. After discussing the importance and results of this initiative, we share our thoughts on the approach that GoI may consider to encourage a more business-conducive and investor-friendly environment in future.

1. *India's performance on the global EoDB index*

The EoDB index was created by the World Bank Group as an indicator of the business environment in a country. The index is devised to measure the simplicity of regulations relating to the functioning of businesses. General conditions such as closeness to markets, infrastructure, inflation and crime are not part of the index. The first index was part of the Doing Business report, 2004, and has since been quantifying data related to the regulatory structure across the various countries in the world.

1.1. Framework of international benchmarking

The EoDB global index of the World Bank Group ranks countries based on the simple average of 10 sub-indices. These sub-indices are devised based on the regulations which are directly under the control of governments. Each sub-index is further determined based on the various parameters which are indicative of the quality and efficiency of the regulations (see Figure 1).

Figure 1: Sub-indices comprising the global Ease of Doing Business index

Starting a business
Procedures, time, cost and minimum capital to open a new business

Dealing with construction permits
Procedures, time and cost to build a warehouse

Getting electricity
Procedures, time and cost required for a business to obtain a permanent electricity connection for a newly constructed warehouse

Registering property
Procedures, time and cost to register commercial real estate

Getting credit
Strength of legal rights index, depth of credit information index

Protecting minority investors
Indices on the extent of disclosure, extent of director liability and ease of shareholder suits

Paying taxes
Number of taxes paid, hours per year spent preparing tax returns and total tax payable as share of gross profit

Trading across borders
Number of documents, cost and time necessary to export and import

Enforcing contracts
Procedures, time and cost to enforce a debt contract

Resolving insolvency
The time, cost and recovery rate (%) under a bankruptcy proceeding

*Source: www.doingbusiness.org

Since 2015, the Doing Business report has also started presenting a relative performance-based measure called 'Distance to frontier', which shows the distance of an economy from the best performing economy, i.e. the frontier, under each sub-index.

In addition, the report for 2017 contains an assessment on labour market regulations. This sub-index is not part of the final rankings, but the analysis of the collected data shows that rigid employment regulation is associated with higher levels of informality. By contrast, weak labour market rules can result in discrimination and poor treatment of workers. Hence, the report advises governments to develop policies to strike the right balance between protection and flexibility. Another additional data point collected and analysed in this report is public procurement regulations, which indicate the ease with which companies can do business with governments across economies. The report suggests a clear move towards the use of electronic public procurement, with 97% of economies using some form of online portals for procurement.

As is widely acknowledged, performance captured against these sub-indices has inspired implementation of new reforms by economies, thereby leading to a more efficient and transparent EoDB environment. For example, a total of 2,900 regulatory reforms were undertaken by 186 economies since 2004, leading to huge improvements in the regulatory climate of the economy.

The index, however, does have its limitations, chief among which is that it does not consider all regulations, particularly those relating to financial markets and intellectual properties. Hence, the index can be considered only a proxy of the regulatory framework present in the economy and does not exhaustively depict the complete business environment of the country. To gauge the business climate of an economy, entrepreneurs and investors must look at other conditions along with the index—such as quality of infrastructure, proximity to large markets and inflation.

1.2. Below par performance of India

The latest EoDB rankings cover 190 countries. India has featured in the Doing Business rankings since the first report in 2004 and has been ranked in the third quadrant since 2006, when the ranking system started. Although India's performance initially improved, it has stagnated in the 130s since 2010 and has never been below 116 since the first rankings. Also, since the 2015 report, two Indian cities, i.e. Mumbai and New Delhi, are being considered for the scores and rankings. Previously, only Mumbai used to be considered for the rankings.

A comparison of the ranks and distance to frontier (DTF) score of India and other top countries, as per the Doing Business 2017 report, is provided below:

Table 1: Ranking and DTF scores for top performing countries and India (Doing Business report 2017)

Rank	Economy	DTF
1	New Zealand	87.01
2	Singapore	85.05
3	Denmark	84.87
4	Hong Kong	84.21
5	South Korea	84.07
6	Norway	82.82
7	United Kingdom	82.74
8	United States	82.45
9	Sweden	82.13
10	Macedonia	81.74
130	India	55.27

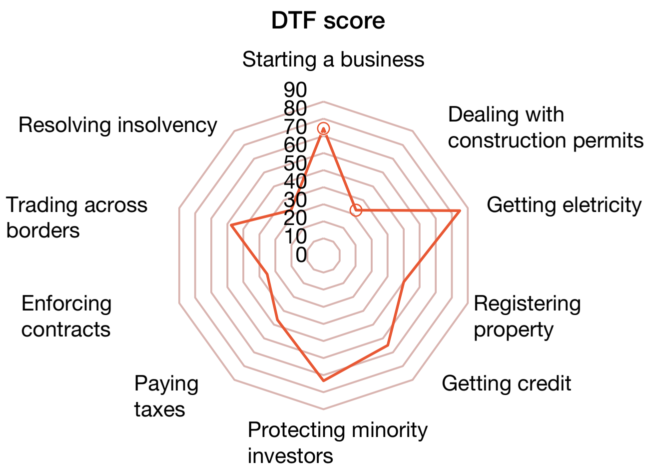
Note: A higher DTF score denotes better performance on EoDB parameters.

India's rank in the 2017 report is the lowest rank among the BRICS countries. However, on the positive side, according to the Doing Business 2016 report, India has shown the highest improvement in South Asia in its DTF score (based on its performance during the 12-year period from 2004 to 2016). Nevertheless, the country's current overall DTF score of 55.27 indicates that it still needs to undertake substantial reforms.

Improvement of India's DTF score in FY 2015–16

The breakdown of India's DTF scores on the various sub-indices is shown below:

Figure 2: India's DTF score on sub-indices in FY 2015–16



The above figure shows that India has performed relatively better on certain sub-indices. Some of the key reforms which contributed to improved performance on these sub-indices are listed alongside:

1 ***Getting electricity***
Made faster and cheaper by streamlining the process of getting a new commercial electricity connection in Delhi

2 ***Paying taxes***
Made easier by introducing an electronic system for paying employee state insurance contributions

3 ***Trading across borders***
Made exporting and importing easier by launching the ICEGATE portal and simplifying border and documentary procedures

4 ***Enforcing contracts***
Made easier by creating dedicated divisions to resolve commercial cases

2. *State-level assessment framework: An attempt to foster healthy competition*

Being a federal country, a majority of the reforms to improve EoDB have to be implemented at the state level and without their support, India cannot improve its standing on the global index. Thus, it was necessary to take a granular view by assessing performance at the individual state level. Recognising the serious implications of the persistently below par performance of the country on the global EoDB index, GoI had launched a key initiative in 2014. As part of its 'Make in India' campaign, GoI conducted a national workshop on 29 December 2014 and came up with a 98-point action plan to improve the regulatory business environment in the country. Based on this initial action plan, a 285-point questionnaire titled 'Assessment Framework for State Level Reforms enabling Ease of Doing Business' was developed to conduct the first-of-its-kind assessment of states in India on parameters relating to EoDB.

2.1. Framework of 2015 with results

The 285-point questionnaire was designed to assess the various regulatory systems and processes existing in the states. The assessment was carried out based on all reforms till 30 June 2015. These questions were divided into the following nine major areas and each of these areas was assessed to arrive at the final results. A snapshot of the assessment along with the underlying rationale is presented in Table 2.

Table 2: 2015 State assessment framework areas

Areas	Issues faced by investors in India	Recommendations of the assessment framework
Availability of detailed online information for setting up a business	• Lack of information relating to whom to approach and how to proceed for investments • Requirement to visit multiple departments for approvals	• Development of various systems/processes to assist and enable a new investor • A well-defined regulatory framework for registering a company, within timelines mandated by 'Right to Public Services' legislations • Establishment of single window framework in the state by setting up a single window dedicated body with required powers and authority • Providing all business-related services through a digital Common Application Form (CAF)
Implementation of an online system for application, approval and download of final signed certificate, NOC, licence or registration certificate	• Slow, long and cumbersome manual approval processes • Even when there are online processes, the information related to these processes, their usage and their functionalities is not available easily	• Adoption of online systems with integrated application, payment, approval and download of final signed certificate functionality, which in turn obviates the need for a physical interface between the investor and the approving departments • Mandated availability of detailed procedure and checklist of documents to be submitted for the application, along with defined timelines to be followed for approvals, failure to do so requiring penalties against the defaulters
GIS-based systems to assist investors in identifying land with transparent allotment process and a hassle-free construction permit procedure	• Availability and identification of industrial land located in the proximity of required utilities and social infrastructure • Manual data storage and processing for obtaining construction permits and property registration	• GIS-based land bank system to enable users to search for available land. Development of transparent objective land allotment process with criteria and timelines • Digitisation and integration of data across various departments with online mutation of records
Easy compliance with environment procedures based on environmental impact and auto-revalidation of consent approvals	• Environment consent management treats all types of industries with similar compliance requirement • Due to delays in setting up and operationalising the industries, the consent approvals often used to expire	• Categorisation of industries based on their impact and exemption for low-impact Green category industries from consent management • Provision for approvals grant for longer durations along with auto-renewal of consent based on self/third-party certification
Improved compliance with labour regulations based on self-certification and/or third-party certification	• Large number of governing laws, with individual procedures and approval processes, requiring hiring of intermediaries and huge cost overheads.	• Provision for self-certification under various labour laws and factories acts, together with longer grant of factory licences • Third-party certification of boilers by empanelled agencies

Areas	Issues faced by investors in India	Recommendations of the assessment framework
Obtaining infrastructure-related utilities in a hassle-free and prompt manner	• Opaque and long processes leading to undue delays in getting utility-related services	• Creation of a fixed cost estimate based on load required, decreasing the required number of documents to only 2, mandated reduced timelines of 15 days for charged connection and third-party inspection for internal installations
Complete online system for registration, payment and return filing under all taxes	• Registration under various state-level taxes, payment of taxes and return filing for all the taxes in a monthly or yearly manner	• Online systems for registration, payment of taxes and return filing under all the taxes • Provision for online VAT refund to investor's bank account • Provision of advance tax ruling • Risk-based inspection related to tax compliance
Synchronised inspections with computerised allocation of inspectors and selection of industrial units for inspections	• By virtue of inspection compliance required under various laws and conducted by multiple different departments, the process is long and cumbersome • Also leads to duplication of effort by industries due to multiple inspections throughout the year	• Synchronised inspections under various acts governed by the same department which is expected to eliminate multiple inspections, duplication of data, and effort by both the units and the inspectors • Adoption of a transparent and computerised system for the selection of industries or risk assessment • Development of automatic allocation of inspectors eliminating repetition and submission of reports within 72 hours of completion of inspections
E-courts ensure enforcing contracts with minimal delay	• Very poor performance of India on the EoDB index under the sub-index 'enforcing contracts' • Burdened with a large number of cases, manual methods and archaic systems	• Implementation of e-courts, eliminating the manual paper-based court system and replacing it with an efficient and transparent online system • Preparedness of the court system to handle these cases with filled-up vacancies for judges

2015 results: Based on this assessment framework, the state's reforms were assessed and a relative ranking was established between the states in September 2015. Based on the implementation score, the best performing state in India was Gujarat, followed by Andhra Pradesh and Jharkhand. It is, however, important to note that even Gujarat had an implementation of 71.14%, which classifies it as an 'aspiring leader' (with scores less than 75%). No state in India was classified as a leader (with a score greater than 75%).

2.2. Framework of 2016 with results

Based on the inputs and feedback received during the 2015 assessment, GoI developed a more evolved and comprehensive 340-point business reform action plan 2016. The assessment was carried out based on all reforms till 30 June 2016. This action plan improved on the previous 285-point assessment framework by integrating reforms to improve the quality of reforms being undertaken. Some of the major changes included:

- Building upon the single window system for all industrial approvals, the new reforms encourage states to implement an online system with application, payment, tracking of application and download of the final signed approval certificate. The new action plan also recommends that states delegate all the required approval powers to the single window body or implement an online system, thus eliminating the need for the investor to interact with various departments.
- Based on the assessment of the online system for application, a system for tracking and monitoring the application was recommended. This will improve the transparency of the system and ensure that the onus to approve the applications within the stipulated time is on the departmental officers.
- The quality of construction permit enablers was also assessed based on the development of a uniform building code/bye-law applicable to the entire state. The enablers have also suggested moving to a trust-based system in which empanelled professionals such as architects and structural engineers have the authority to provide third-party certification for building permits.
- Another major change is the suggestion to develop automated tools to monitor the quality of electricity supply, monitor outages and restore service. This will ensure uninterrupted quality service to industries and eliminate undue delays in the restoration of services. The action plan also recommends that states make the applicable electricity prices and quality of service provided by DISCOMs publicly available on the department website.
- The inspection-related reforms have also enhanced the requirements for online inspection systems. The mandated time for inspection report submission has been recommended to be reduced to 48 hours and it has been suggested that the repetition of an inspector at the same establishment for consecutive inspections be eliminated. To further enhance the transparency of the system, the action plan suggests the creation of a system which enables the investor to log in and view the inspection reports online.
- Finally, to improve the system for enforcing contracts, the action plan suggests the creation of dedicated commercial benches and courts along with paperless e-courts at the state level.

With these improved recommendations, the latest action plan intends to provide actionable reforms which can be undertaken by states to improve their EoDB framework. The government has created an online dashboard for states to upload the implemented reforms. The dashboard shares the implemented reforms with the other states, thus creating an environment for shared and competitive development between states. The dashboard can be accessed using the following URL: *http://eodb.dipp.gov.in/index.aspx*

2016 results: Based on the changed assessment framework of 340 recommendations, states' performance under the defined areas was assessed and a relative ranking was established between the states in October 2016. The best performing states in India, based on the implementation score, were Andhra Pradesh and Telangana, followed by Gujarat, Chhattisgarh and Madhya Pradesh. Unlike 2015's assessment, in 2016, 12 states were recognised as leaders with scores above 90%.

The overall national average implementation also increased from 32% to 48.93%, indicating a significant increase in the number of states undertaking the required reforms. Many states made significant progress in single window, environment, labour and inspection reforms. However, reforms related to land regulation enablers and commercial dispute resolution were not implemented to the extent suggested in the recommendations.

3. Recommendations to strengthen the framework

With each year, the assessment framework intends to improve and evolve, based on the inputs and feedback received from various stakeholders. This continuous evolution will ensure that the suggested recommendations are in tune with the industry requirements.

Some areas wherein the assessment framework could be enhanced and made more effective are as follows:

Evaluation of ground-level implementation of the reforms:

Currently, the assessment is being carried out based on the inputs provided by state governments; however, the real 'judge' of the environment should be the investors. Future assessments may give weightage to the feedback provided by the user industry and define the assessment scores while also incorporating the feedback.

Weightage and relevance for the action points:

The current business reform action plan provides equal weightage to all the recommendations. The weightages may be differentiated to reflect the complexity of implementation and the impact of reform on the industry.

For instance, let's consider examples of two reform measures. One reform measure recommends making available the procedure and list of documents to be submitted for a service online. Another measure recommends the implementation of a SCADA system to monitor power outages and automatically restore electricity service across the state. Clearly, the effort and complexity in implementation and the impact of the latter measure are much higher for industries. The latter measure therefore could be provided higher weightage while assessing the reforms implemented by various states. Similar, differential weightages could be provided to all the reform measures in consultation with state governments and the industry to reflect the 'real' ease of doing business in different states.

The action points could be given differential weightage based on their impact on the doing business environment and complexity in implementation.

Need for automation and re-engineering of existing departmental approval processes:

The existing approval processes in many government departments are based on manual processes that have been followed since a long period of time. These processes could be revisited and the identified redundant steps could be either eliminated or replaced with automated systems to ensure prompt and hassle-free services to the investor.

Integration of all industry-related approvals, NOCs, licences and registrations into a robust online single window system:

Though the current assessment emphasises the use of a single window system for select key investor services for different clearances/approvals, the future frameworks could be comprehensive and incorporate the development of a single portal for all concerned industrial services. This single online system could provide an integrated solution for investors—from facilitation to approvals, renewals and operational support. Implementation of this system could be reviewed during the assessments to ensure that all possible physical touchpoints are removed in the entire life cycle of an investment proposal.

Third-party/self-certification based system for approvals:

A number of clearances/approvals require inspections of the premises and other certifications from competent authorities. Self-certification and third-party certification mechanisms could be promoted for medium- and low-risk industries. Although the current framework recommends this mechanism, the usage and implementation of this measure on ground are currently limited. Handholding of states as well as the user industry could be done while highlighting the benefits of the measures based on successful examples from other states and countries.

Pre-approved registration certificates:

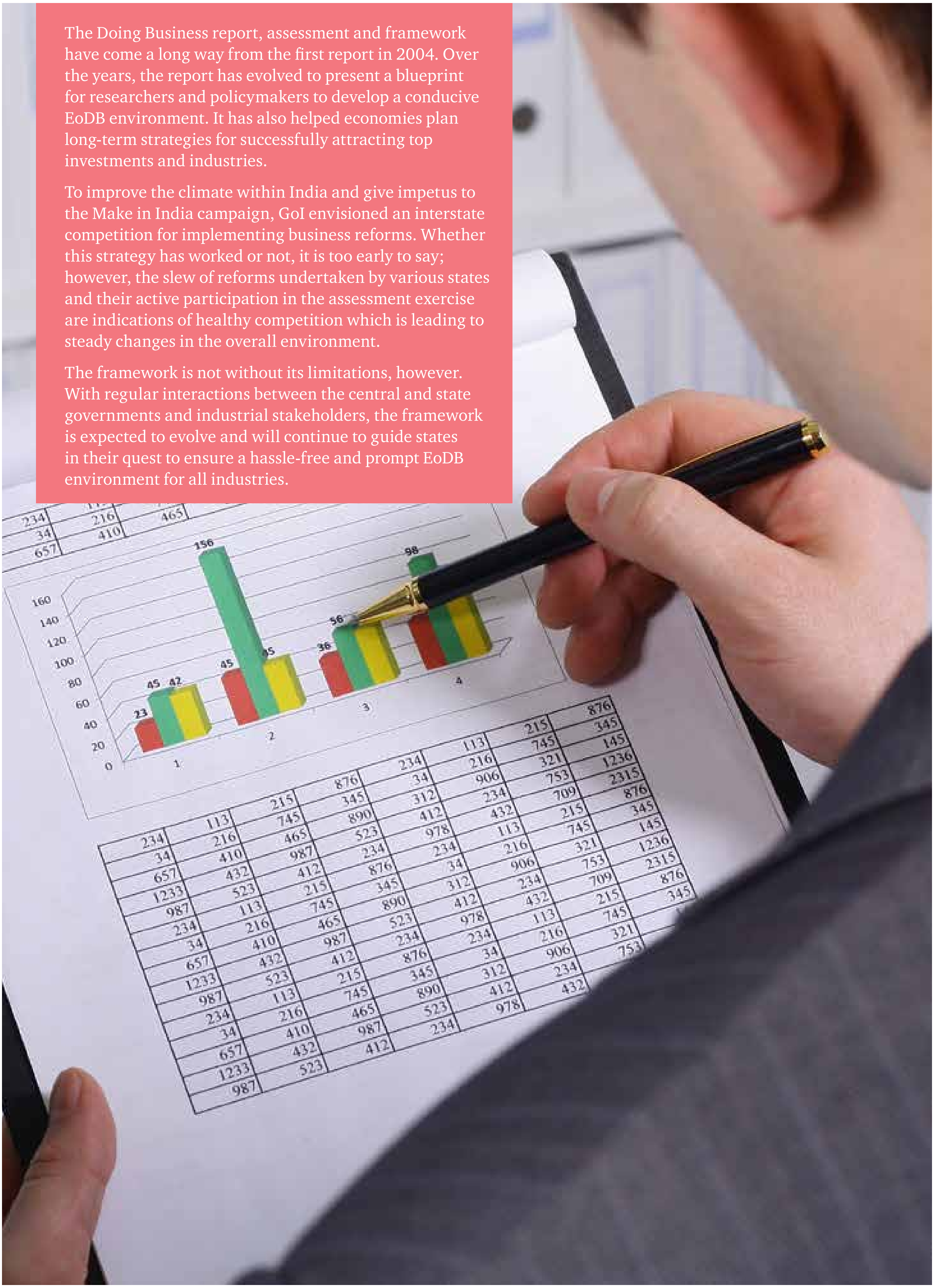
Pre-approved registration renewal certificates, licences, NOCs or approvals could be provided for low- and medium-risk industries based on their past compliance status. This could fast-track the approval process and also decrease the burden on the approving authority.

Integration of feedback loop with the industry:

Feedback from the industry must be integrated while designing the assessment framework for doing business. The ground issues faced by the industry while setting up and operating could be part of the doing business reforms that the states must undertake. Such issues may be very typical to the country/a state. The measure of implementation of these reforms would only reflect the 'true' ease of doing business.

Incorporation of these suggestions may strengthen the assessment framework and provide a more holistic representation of the doing business environment in various states.

4. Conclusion



The Doing Business report, assessment and framework have come a long way from the first report in 2004. Over the years, the report has evolved to present a blueprint for researchers and policymakers to develop a conducive EoDB environment. It has also helped economies plan long-term strategies for successfully attracting top investments and industries.

To improve the climate within India and give impetus to the Make in India campaign, GoI envisioned an interstate competition for implementing business reforms. Whether this strategy has worked or not, it is too early to say; however, the slew of reforms undertaken by various states and their active participation in the assessment exercise are indications of healthy competition which is leading to steady changes in the overall environment.

The framework is not without its limitations, however. With regular interactions between the central and state governments and industrial stakeholders, the framework is expected to evolve and will continue to guide states in their quest to ensure a hassle-free and prompt EoDB environment for all industries.

Pick of the season

Digital financial inclusion—a new revolution

1. *Introduction*

A growing body of evidence indicates that improving access to finance for small and medium enterprises (SMEs), people at the bottom of the pyramid (BoP) and women has the potential to accelerate economic growth and move the poor and vulnerable out of the vicious cycle of poverty. Two billion people worldwide (or 38% of adults in the world) do not have access to formal financial services.[1] In India itself, 47% of adults don't have access to formal financial systems.

In this context of substantial unmet needs, financial sector policymakers across the world have recognised the game-changing potential of promoting 'digital' financial inclusion. In fact, the tremendous potential of digital technology in opening up access to financial services and driving down costs is being envisaged as the ultimate solution to mitigate poverty. While connection to the digital finance ecosystem contributes towards improving the lives of millions of poor households dependent on cash transactions, the benefits of digital technology in the financial sector are numerous. For example, once linked to the digital financial ecosystem, small holder farmers can save their harvest proceeds in secure, interest-bearing accounts and migrant labourers can remit money to their family at the click of a button. Further, as several publications of the Consultative Group to Assist the Poor (CGAP) and Gates Foundation show, digital finance also gives an opportunity to build a financial history which can be harnessed to get affordable loans. Additionally, governments are enabled to deliver social welfare payments directly into citizens' accounts. The use of digital payments is thus encouraged as the process is cost effective, secure and can be made through reliable channels.

While these aforementioned potential benefits are duly and widely acknowledged, much action remains to be taken to effectively realise them. The push to DFI and its importance have become more pronounced in India against the backdrop of demonetisation. This article explains DFI, barriers and challenges to financial inclusion, examples of global best practices in DFI and the future of DFI.

2. *Defining DFI*

DFI is defined as access to a formal financial system by disadvantaged and low-income segments in an affordable manner.[2] The services provided through digital channels should meet the customer needs and aspirations and should be offered through credible and responsible delivery channels and be sustainable for financial service providers (FSPs). There are four essential components of DFI: ***transaction platform, customer service providers (CSPs/retail agent, delivery channels and Internet connectivity.***

Functioning of DFI

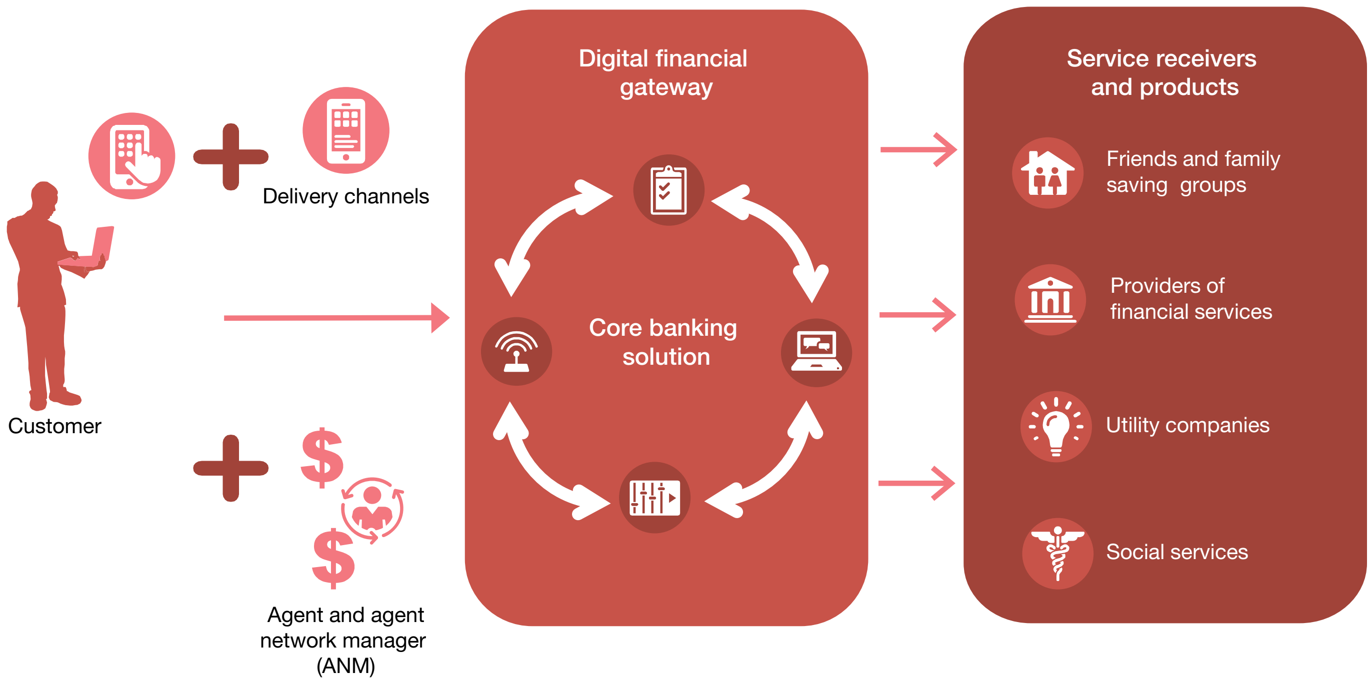
A digital finance platform enables the unbanked masses to convert their physical cash into digital/electronic money. The digital platform is integrated with the core banking system of banks/telcos and other financial and non-financial institutions. DFI is considered a success when a poor, and thus far unbanked, customer starts transacting digitally with his/her family and friends, formal banking and financial institutions and utility companies, and receives government-to-person (G2P) payments directly into his/her bank account. DFI can be categorised into two types, i.e. assisted and self-service. While financial transactions availed of using agent networks—especially for cash-in and cash-out services[3]—are considered assisted DFI, payments and transfers made through use of own mobile phone are called self-service DFI.

[1] World Bank. (2014). The Global Findex Database. Retrieved from http://documents.worldbank.org/curated/en/187761468179367706/pdf/WPS7255.pdf#page=3
[2] UNCDF. (2006). Building inclusive financial sectors of development. Retrieved from http://www.uncdf.org/sites/default/files/Documents/bluebook_1.pdf
[3] Cash in'—also known as deposit—refers to the crediting of an amount into a customer's account, whereas 'cash out' refers to the withdrawal of money from a customer's account.

The following infrastructure needs to be in place to facilitate DFI:

- ***A transaction platform*** which connects the customer/agent to the core banking systems for electronic deposit, withdrawal and transfer. It also records customer transaction details.
- A ***CSP/agent*** who passes on/receives customer transaction details from the transaction platform. The agent converts cash into electronic money and vice versa. This agent is also involved in enrolling a customer into the financial system and complying with know your customer (KYC) requirements.
- ***Digital delivery channels*** such as point of sale (POS), mobile phones and computer kiosks which facilitate customer authentication and real-time transactions.
- ***Internet connectivity*** which helps the digital delivery channels connect with the transaction platform for customer authentication and transactions on a real-time basis.
- ***A system for capturing and authenticating the identity*** of the customer.
- ***A virtual account*** for enabling digital payment connectivity.
- ***A payment platform*** that connects customers with other service providers and different platforms.
- ***Methodologies and a set of rules*** that enable payment and settlement across platforms.
- Ability of the system to connect with other systems through an ***application programme interface (API).***

Figure 1: Schematic representation of DFI platform



Benefits of DFI to unbanked masses

Being financially included in a formal banking system helps to:

- Make daily transactions more easy;
- Safeguard savings of people, which eventually helps households and small businesses in efficiently managing cash flow, smoothening consumption and formation of working capital; and
- Finance the business needs of small businesses and support owners in investing in assets and increasing the scale of operation of business.

It also helps people to plan and pay for recurring expenses, mitigate financial shocks and manage expenses related to unexpected events such as medical emergencies. Even though DFI offers significant benefits to households, small business units and disadvantaged segments of the economy, several barriers to financial inclusion exist which have limited the reach of users to formal financial channels.

Digital finance brings a host of benefits to the government and economy as a whole by reducing leakage in public expenditure. Shifting payments made by the government under various social programmes to a digital mode of payments increases efficiency, saves cost and ensures that the government spending reaches the target and intended beneficiaries. It also broadens the tax base and increases the volume of tax revenue from the citizen while helping the government further enhance revenue by increasing the size of the formal economy. This will effectively increase government investment in critical areas for equitable growth such as public health, education and infrastructure. Digital payments have the potential to create new business models such as e-commerce, which can help create a large number of jobs and bring in foreign investments.

In addition, digital finance helps in increasing liquidity for banks as more money is mobilised in the banking system, thereby lowering interest rates and inflation. Low interest rates enhance borrowing from businesses and individuals, which spurs business activity and creates employment.

Even though there are multiple direct and indirect benefits to DFI, its application might cause obstacles and hinder the implementation process. The barriers to financial inclusion are discussed below.

3. *Barriers to financial inclusion*

Major progress has been made towards increasing access to finance for low income and vulnerable households. In the recent past, there has been a proliferation of innovative and disruptive digital payment solutions. The digital revolution is enabled by exponential penetration of mobile phones, Internet access and innovative regulations. Impressive gains have been achieved in the introduction of new product offerings and innovative business models, which have the potential to ensure sustainability and scale. The range of public and private sector actors involved in the financial sector domain has never been broader.

Even though the trends in emerging markets are quite encouraging and many FSPs have introduced solutions which can be potential game-changers, some challenges remain. In order to identify the inherent reasons behind financial exclusion, it is important to understand the demand and supply-side issues that restrict the masses from taking advantage of the digital financial revolution.

Supply-side issues

A large number of FSPs, such as banks, mobile network operators (MNOs), agent network managers (ANMs), technology service providers (TSPs), micro finance institutions (MFIs), non-government organisations (NGOs), cooperative unions and rural banks, are offering a wide range of financial services to the poor as technology innovations have enabled FSPs to increase their outreach at much cheaper costs. However, there are several supply-side constraints that hinder the proliferation of digital financial services among the masses, which are discussed below:

Poor infrastructure and lack of physical access: It has been noticed that emerging markets lack core infrastructure such as proper connectivity, national switches and payment gateways, a centralised citizen database for KYC and customer authentication and adequate supply of electricity.

Lack of interoperability: A large number of providers have launched closed loop systems in their individual networks, which restrict the customer from transacting with other providers. Such closed loop systems lack interoperability among providers and restrict customer choices.

Lack of enabling regulations: Banking technologies and agents could reduce cost of operation and increase access to financial services in remote areas through use of innovative measures. However, the development of such innovations is often constrained by the lack of enabling regulations. Furthermore, in most emerging countries, alternative product development—which may lead to financial inclusion—such as leasing, is not supported due to lack of regulations, thereby impacting product innovation.[4]

Underdeveloped delivery channels: Seventy-five per cent of the world's poor live in rural areas where fewer access points for availing financial services exist.[5] In these places, mobility constraints and weak infrastructure make travelling to the closest access point even more costly and difficult.[6] Although it has been proven that digital financial services reduce cost and increase outreach, FSPs still depend on branch networks which is quite costly and largely unviable in these remote areas.

[4] ADB. (June 2015). Financial inclusion, financial education and financial Regulation: A Story from Indonesia. Retrieved from https://www.adb.org/sites/default/files/publication/161176/adbi-wp535.pdf

[5] Source: 2014. The Global Findex Database. World Bank. Retrieved from http://documents.worldbank.org/curated/en/187761468179367706/pdf/WPS7255.pdf#page=3

[6] World Bank. (2011). Making transport work for women and men: Challenges and opportunities. Retrieved from http://siteresources.worldbank.org/EXTTSR/Resources/463715-1322323559362/Gender-Transport-MENA.pdf

Lack of understanding of fortune at the BoP: FSPs still regard banking services to the poor and vulnerable as a regulatory obligation rather than a business opportunity. As a consequence, these providers are reluctant to go beyond their regulatory obligation and explore the true potential of this market by investing in innovative and cutting-edge technology and offering suitable products to the segment.

Weak value proposition to the customers: Many FSPs have failed to recognise the diverse needs of the poor and low income groups; they assume that the standard financial products designed for affluent customers will serve their needs as well. As a result, uptake of formal financial services among the poor is quite low and they continue to use informal sources of finance.

Demand-side issues

Demand-side constraints on the uptake of digital financial services are mainly attributed to the financial behaviour of poor households. Several demand-side studies—which focus on understanding the behaviours, needs and preferences of customers—are being conducted by research organisations from time to time. Still, misconceptions and gaps remain around the constraints that impede the poor from accessing formal financial systems. These constraints include the following:

Lack of information on banking sector products: According to a study conducted by CGAP, in most developing countries, low-income groups have a perception that formal financial institutions discourage lending of money to people belonging to the low-income category/informal companies. Such perceptions, which arise from lack of information, are considered one of the strongest demand-side issues of financial inclusion.

Lack of trust in formal financial institutions: In emerging and developing economies, where formal banking services are generally used by rich and middle-class people, transacting with formal financial institutions often makes the poor uncomfortable. They often fail to develop a relationship of trust, which is required for financial transactions.

Low level of financial literacy: Low levels of awareness about financial products, numeracy skill, literacy and access to technology impede the poor from accessing formal financial services. This situation is further exacerbated by limited understanding of consumer protection measures such as consumer rights and duties.

Low-income level and lack of collateral and repayment capacity: Lack of regular income in households is a major reason for financial exclusion in both developed and developing countries.

Not having enough income dissuades a large segment of people from opening bank accounts. This is often cited as the most common reason for unbanked households not participating in the mainstream financial system. To make matters worse, lack of collateral and repayment capacity due to insecure income restricts them from approaching formal financial institutions to borrow money.

Fact point: Nearly 20% of lower income United States' households, which is almost 7 million having an income below 30,000 USD per year, do not have a bank account.[7]

Price and non-price led barriers

Apart from the supply and demand hurdles discussed above, barriers to financial inclusion can arise from both price and non-price led factors. Price barriers include hurdles associated with eligibility for receipt of finance and affordability. For example, to open a checking account in a commercial bank in Cameroon, the minimum deposit requirement is over 700 USD, which is higher than the average GDP per capita of that country.[8] In many developing countries, a user needs to maintain a minimum balance to avail of various banking facilities from a formal financial institution, which often becomes a barrier to access financing. In addition, there are significant time costs involved with the receipt of a loan in many developing countries. For example, in Bangladesh, Pakistan and the Philippines, a small business unit needs to wait for more than a month for a loan applied for business purposes to be processed. These hurdles are hard to overcome for large parts of the population in the developing world.

Voluntary and involuntary exclusion

Even though there are demand- and supply-side issues linked to financial exclusion, it has been found that not all exclusion is involuntary. Factors contributing to voluntary exclusion can include cultural/religious reasons and access to financing which individuals fail to realise, whereas factors contributing to involuntary exclusion can range from discrimination of borrowers, lack of information, complexity of product features and/or insufficient incomes and high-risk borrowers.[9]

While access to finance is mostly supply driven, usage of modes of financial inclusion is determined both by demand and supply factors. Hence, the major challenge for policymakers is to distinguish between voluntary and involuntary exclusion factors and find appropriate solutions to manage the gap—more importantly in the case of those who are excluded involuntarily. For the group that is involuntarily excluded, policymakers need to identify those who are rejected due to high risk and those who are rejected because of discrimination or high prices that make services or products unaffordable.

[7] Federal Deposit Insurance Corporation. (2014). 2014 FDIC National Survey of Unbanked and Underbanked Households.
[8] World Bank. (October 2006). Banking services for everyone? Barriers to bank access and use around the world. Retrieved from http://siteresources.worldbank.org/DEC/Resources/WBER_Banking_services_for_everyone.pdf
[9] World Bank. (2008). Finance for all? Policies and pitfalls in expanding access. Retrieved from http://siteresources.worldbank.org/INTFINFORALL/Resources/4099583-1194373512632/FFA_book.pdf

4. *Conclusion: The future of DFI*

DFI has the potential to extend the provision of banking services to the poor through innovative technology and customised products. It also ensures affordability for customers and sustainability for providers by drastically reducing the cost for customer servicing and maintaining agents and providers. Central bank regulators around the world have taken cognisance of this fact and are striving to unlock the potential of DFI by creating a favourable environment. Globally, the number of unbanked adults dropped from 2.5 billion in 2011 to 2 billion in 2014, which shows that 500 million people were brought into the ambit of banking services in a span of three years . This achievement can be largely attributed to the digital revolution that took place in the emerging countries of Africa and Asia.

However, realising the full potential of DFI would require further understanding of the needs, attitudes and behaviours of the poor and customising/designing products which fulfil their needs and aspirations. The providers may be required to develop an even more innovative solution through disruptive technologies. Successful mobile penetration in the developing world augurs well for DFI.

The implementation of national-level programmes like a centralised biometric database of citizens will help in increasing the base of population covered under the formal financial sector. In this regard, the future of DFI is expected to be driven by two factors: **integration of more services through digital modes and educating people on use of DFI.** Since the number of people using smartphones and mobile Internet has increased, integrating more financial services with existing services is expected to help more people come under the ambit of the formal financial domain. In addition, educating people on digital financial services is expected to have a ripple effect by increasing the know-how of DFI schemes and the base of users.

To harness the game-changing potential of DFI in reducing poverty, close cooperation amongst governments, regulators, FSPs and think tanks is needed. If proper coordination between public and private actors in developing countries is ensured, it is likely that such countries will leapfrog developed countries in the adoption of DFI technologies, thereby bringing in great benefits to their population.

[10] World Bank. (2014). The Global Findex Database. Retrieved from http://documents.worldbank.org/curated/en/187761468179367706/pdf/WPS7255.pdf#page=3

Round the corner

News bytes

1. Digital payments soar by up to 300% after demonetisation

Economic Times, 10 December 2016

The demonetisation move of GoI, where 500 and 1,000 INR notes ceased to be legal tender, led to a surge in digital payments. According to government data, the number of daily transactions through e-wallet services such as Oxigen, Paytm and MobiKwik shot up from 17 lakh—recorded on November 8 when demonetisation was announced—to 63 lakh as on December 7 (a growth of 271%). In terms of value, the surge has been 267%—from 52 crore INR daily to 191 crore INR now. Transactions through RuPay Cards (e-commerce and point-of-sale) were up 316% at 16 lakh INR daily (3.85 lakh INR on November 8), while in terms of value, the growth has been 503% at 236 crore INR (39 crore INR).

Source: *http://economictimes.indiatimes.com/industry/banking/finance/banking/digital-payments-soar-by-up-to-300-after-demonetisation/articleshow/55908208.cms*

2. Bharti Airtel launches payments bank in Rajasthan

The Economic Times, New Delhi: 23 November 2016

Airtel Payments Bank became the first payment bank to launch its pilot services in Rajasthan, with banking points at 10,000 retail outlets in the state. The payments bank will offer bank account opening services using e-KYC through Aadhaar card, cash deposit and withdrawal facilities. An interest rate of 7.25% on savings accounts will be given, which is the highest in India. Customers can check their account balance, access other services using the Airtel Money app on smartphones or through USSD or IVR on feature phones. The product portfolio includes payment banking services and semi-closed mobile wallet services. The bank plans to leverage Bharti Airtel's extensive national distribution network of over 1.5 million retail outlets, with deep penetration in rural areas.

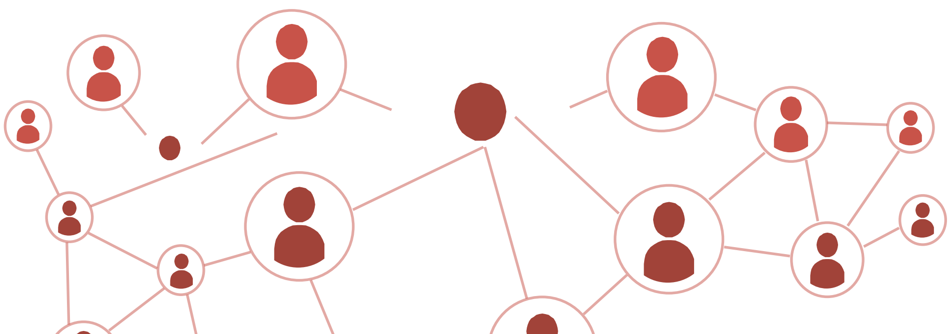
Source: *http://economictimes.indiatimes.com/industry/banking/finance/bharti-airtel-launches-payments-bank-in-rajasthan/articleshow/55579660.cms*

3. RBI proposes 'Islamic window' in banks

The Hindu, New Delhi: 20 November 2016

The Reserve Bank of India (RBI) has proposed the opening of an 'Islamic window' in conventional banks for 'gradual' introduction of sharia-compliant or interest-free banking in the country. It is anticipated that this move could ensure financial inclusion of those sections of society that remain excluded due to religious reasons. The central bank's proposal is based on the examination of legal, technical and regulatory issues, regarding the feasibility of introducing Islamic banking in India on the basis of the recommendation of the Inter Departmental Group (IDG) and it has prepared a technical analysis report for the Finance Ministry. The pivotal areas of work include operationalisation of sharia boards and committees, feasibility of extending deposit insurance to Islamic banking deposits, identifying the financial risk and suggesting an appropriate accounting framework for these products. The plan is an offshoot of the decision taken by the RBI committee in 2008 on Financial Sector Reforms, headed by former RBI Governor Raghuram Rajan, which raised the need for a closer look at the issue of interest-free banking in the country.

Source: *http://www.thehindu.com/business/Industry/Sharia-banking-RBI-proposes-%E2%80%98Islamic-window%E2%80%99-in-banks/article16669006.ece*



4. A.P., Telangana top in ease of doing business

The Hindu, New Delhi: 31 October 2016

As part of a joint initiative between the World Bank and the Department of Industrial Policy and Promotion (DIPP), GoI, for the assessment of EoDB, Andhra Pradesh topped the list along with Telangana, with an implementation rate of 98.78%. In terms of attracting investment, Karnataka, Gujarat and Maharashtra were considered to be the top three states. Around 32 states and union territories (UTs) submitted evidence of the implementation of 7,124 reforms which were reviewed by the World Bank team and validated by DIPP. The states were segregated into three categories: 'leaders, aspiring leaders and jump-start needed'.

Source: *http://www.thehindu.com/business/Economy/ease-of-doing-business-andhra-pradesh-telangana-tops-2016-allindia-ranking/article9288074.ece*

5. IMF releases the 2016 Financial Access Survey

IMF Press Release, US: 3 October 2016

The International Monetary Fund (IMF) released the results of the seventh annual Financial Access Survey (FAS). FAS is a key source of data on financial inclusion, providing insights into the availability and use of financial products such as deposit accounts, loans and insurance policies by individuals and firms across the globe. The FAS database contains more than 150 series for up to 189 economies, spanning the period 2004–15. The information is based on administrative data that is collected from both traditional financial service providers like commercial banks, MFIs, or other deposit-taking institutions, and providers of digital financial services such as mobile money. India ranks 89th out of 167 countries on the indicator of branches of commercial banks per 100,000 adults and 31st when it comes to branches of commercial banks per 1,000 sq. km.

Source: *http://www.imf.org/en/News/Articles/2016/10/03/PR16441-IMF-Releases-the-2016-Financial-Access-Survey*

6. Government plans to develop Paradip as a world-class MSME hub

The Economic Times Realty, New Delhi: 3 September 2016

The Ministry of Shipping is planning to develop Paradip as a world class, global competitive and smart industrial port city. The rationale behind developing Paradip as a smart city is that it already has a major port and strong mineral resource presence in the region which could make it a hub for micro, small and medium enterprises (MSMEs). The on-going Sagarmala programme and the expansion plan of the outer harbour will only increase the port traffic. The smart city at Paradip will be built on a public private partnership (PPP) basis and it will have multi-modal logistics parks (MMLPs), industrial parks, residential and commercial areas, a water management system, waste recycling centre and creek development programme for tourism. The proposed smart city will spread across 6,727.17 acres, out of which 1,652 acres will be dedicated to residential area, whereas 1,950 acres and 3,115.17 acres will be dedicated to industrial area and custom-bound area respectively.

Source: *http://realty.economictimes.indiatimes.com/news/industry/paradip-to-be-developed-as-world-class-smart-port-city/53992103*

7. Gujarat government plans 'Ease of Doing Agriculture' policy

The Times of India, Ahmedabad: 13 August 2016

Gujarat is planning a policy for 'Ease of Doing Agriculture' through which it plans to develop an integrated framework and address the issues faced by farmers to make agriculture a much easier job. As part of the policy, the state intends to integrate different government initiatives and development schemes for the benefit of farmers. Like the EoDB index, which ranks different states based on their business reforms, the Government of Gujarat is developing various parameters to be covered under the proposed policy.

Source: *http://timesofindia.indiatimes.com/city/ahmedabad/Gujarat-govt-plans-Ease-of-Doing-Agriculture-policy/articleshow/53680493.cms*

8. MSME data bank has been launched by the Union Finance Minister, GoI

The Hindu Business Line, New Delhi: 10 August 2016

A data bank has been launched by the Union Finance Minister, GoI, to gather information about MSMEs, apart from an online Finance Facilitation Centre to provide collective funding options for MSMEs. While the previous census of MSMEs conducted in 2008 cost the exchequer 50 crore INR, the data bank is expected to serve the same purpose in just 1 crore INR. The census process formally commenced from 12 August 2016 with the launch of the data bank. Six online finance facilitation centres would be opened in Jalandhar, Ludhiana, Guwahati, Lucknow, Peenya and Delhi. The centres would operate as a one-stop shop by providing collective financing options for MSMEs sourced from major financial institutions.

Source: *http://www.thehindubusinessline.com/economy/policy/jaitley-to-launch-msme-data-bank-finance-facilitation-centres-tomorrow/article8969695.ece*

9. MSME sector: Framework for easing credit flow on the anvil

The Indian Express, New Delhi: 24 August 2016

With MSMEs facing an acute shortage of credit availability, RBI is planning a number of steps to improve the situation, including setting up a movable credit registry, accrediting of credit counsellors for small entrepreneurs and creating electronic bill factoring exchanges for faster payment of bills. As against the MSMEs' demand of 26 lakh crore INR of loans, credit availability is only 11.10 lakh crore INR, with a majority of such enterprises depending upon informal sources of financing. In order to ease flow of credit, RBI is starting to put in place a framework for accreditation of credit counsellors who are expected to serve as facilitators and enablers for micro and small entrepreneurs. RBI would also issue final guidelines for peer-to-peer (P2P) lending. New players have entered the MSME-lending landscape in the form of P2P companies. These entities use an online platform to match lenders with borrowers to provide unsecured loans mostly for receivables financing. For faster payment of bills to MSMEs, RBI has licensed three entities to operate the trade receivables discounting system (TReDS), which will commence operations in the current fiscal year. The system will facilitate the financing of trade receivables of MSMEs from corporate and other buyers, including government departments through multiple financiers.

Source: *http://indianexpress.com/article/business/business-others/msme-sector-framework-for-easing-credit-flow-on-the-anvil-2993237/*

Paper releases

1. Medium-term recommendations to strengthen the digital payments ecosystem

Report by Ministry of Finance, Government of India, December 2016

The report relates to the digital payments framework in India, which is aimed at strengthening the ecosystem and promoting digital payments, with a focus on reaching financially and socially excluded groups. The underlying vision behind the recommendations of the designated committee on digital payments is to reduce the cash to GDP ratio from about 12% to 6%. The recommendations are expected to be implemented over the next 30 to 90 days. The required procedures include (i) placing the proposed legislative changes before the Parliament, (ii) regulatory changes by RBI within the current legislative framework and (iii) implementing the policy and executive steps by Ministry of Finance and other nodal ministries. The recommendations revolve around making regulation of payments independent from the function of central banking, updating the legislative acts, laws and bye-laws, and creating a ranking and reward framework for government departments.

Source: *http://finmin.nic.in/reports/watal_report271216.pdf*

2. Shifting trends in the microfinance ecosystem

Report by PwC, November 2016

The report elucidates some of the trends and challenges that the microfinance industry faces today and discusses the techniques which can be adopted by MFIs to succeed in the dynamic environment. It stresses on the importance of undergoing a change right from aligning with relevant channel partners to re-engineering internal processes, addressing risk and regulatory challenges, and optimising the costs of utilising technology and the power of digital to reach out to the financially unbanked and underbanked. The report acknowledges the need for MFIs to address customer requirements, navigate lenders and investors, build effective partnerships with financial and non-financial institutions for sales, and cross-sell and adhere to guidelines issued by regulators and self-regulatory organisations. On the internal front, operations, technology, risk management and human capital need to be strengthened in all activities undertaken by MFIs.

Source: *http://www.pwc.in/assets/pdfs/publications/2016/shifting-trends-in-the-microfinance-ecosystem.pdf*

3. Household Survey on India's Citizen Environment & Consumer Economy

Report by People Research on India's Consumer Economy (PRICE), November 2016

The 'Household Survey on India's Citizen Environment & Consumer Economy' was conducted by People Research on India's Consumer Economy (PRICE)—a non-profit research centre in 2016. One of the key findings of the report is that 99% of households in both rural and urban India have at least one member with a bank account, with 91% of urban households having linked their Aadhaar card to their bank accounts. The comparative figure is lower for rural India at 78%. It has been concluded that the Jan Dhan Yojana scheme has been a huge success in getting people to open bank accounts. However, the survey also shows that a significant number of households who have access to banking still don't use banking instruments to save or invest, which is consistent with what the official data shows. The survey, covering 61,000 households, is among the largest consumer economy surveys in the country and captures data till July 2016 and is closely comparable with the National Sample Survey Office (NSSO) estimates. A notable feature of the survey is that it is representative at the level of economic clusters across both urban and rural sectors. Geographically, the sample has been drawn from across 216 districts, 1,217 villages and 487 towns, spread across 25 major states.

Source: *http://www.ice360.in/en/projects/what-are-ice-360-surveys/upcoming-survey-ice360o-2016*

4. Doing Business 2017: Equal opportunity for All

Report by the World Bank, October 2016

Doing Business 2017: Equal Opportunity for All—a World Bank Group flagship publication—is the 14th in a series of annual reports measuring the regulations that enhance business activity and those that constrain it among a list of 190 countries. While New Zealand tops the chart, Somalia is the last in the rankings. The most improved economies were Brunei Darussalam, Kazakhstan, Kenya, Belarus, Indonesia, Serbia, Georgia, Pakistan, the United Arab Emirates and Bahrain in areas tracked by Doing Business for the given period, as these nations together implemented 48 regulatory reforms, making it easier to do business. India had a marginal improvement in its position to 130 in the World Bank Ease of Doing Business 2017 report as compared to 131 as per a previous report.

Source: *http://www.doingbusiness.org/~/media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB17-Report.pdf*

5. Consultation paper on the review of regulatory framework for the use of USSD for mobile financial services

Consultation paper from Telecom Regulatory Authority of India (TRAI), September 2016

This consultation paper analyses various aspects of unstructured supplementary service data (USSD) based mobile financial services and seeks comments of stakeholders on the issues for consultation. According to TRAI, USSD-based mobile banking has not gained much traction even two years after its introduction in August 2014. The sub-optimal results achieved so far in the use of the USSD-based mobile banking channel for financial inclusion suggests the service suffers from the problem of inadequate usage despite adequate access. In its consultation paper, TRAI has advocated a comprehensive review of the regulatory framework for deploying the USSD communications channel for mobile banking, especially to ensure that a service that has been successfully delivered in other countries does not fall short of expectations in India.

Source: *http://www.trai.gov.in/WriteReadData/WhatsNew/Documents/CP_on_USSD_based_Mobile_Banking.pdf*

6. Overview of financial inclusion, regulation and education

Working paper from Asian Development Bank (ADB), September 2016

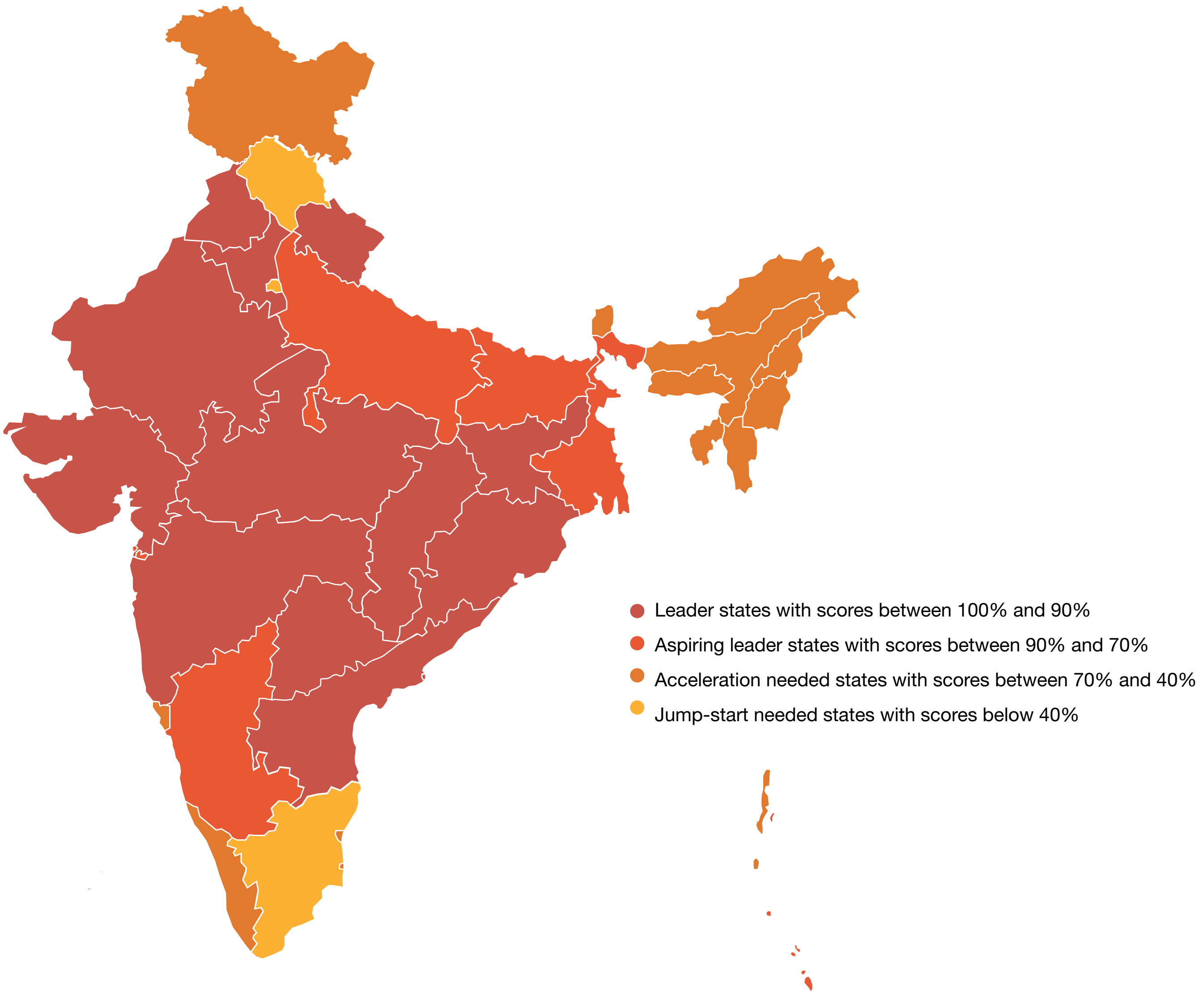
This paper surveys the experiences of advanced and emerging economies—Germany, the United Kingdom, Bangladesh, India, Indonesia, the Philippines, Sri Lanka and Thailand—to assess factors affecting the ability of low-income households and small firms to access financial services, including financial literacy, financial education programmes, and financial regulatory frameworks, and to pinpoint policies that can improve their financial access while maintaining financial stability. The study aims to take a practical, holistic approach to issues related to financial inclusion. For example, innovative methods for promoting financial access—such as mobile phone banking and microfinance—require corresponding innovations in regulatory frameworks, perimeters and capacity. Moreover, programmes in the areas of financial education and consumer protection are needed to enable households and small firms to take full advantage of improvements in financial access.

Source: *http://www.adb.org/sites/default/files/publication/190672/adbi-wp591.pdfStatus of Microfinance in India*

Potpourri

In 2016, India undertook the second assessment of state-level reforms to enable EoDB based on the 340 recommendations shared with the states. The results were released on 31 October 2016. Based on their scores, the states were divided into four groups: leaders (with scores above 90%), aspiring leaders (with scores between 90% and 70%), acceleration needed (with scores between 70% and 40%), and finally, jump-start needed (with scores below 40%). The figure below illustrates the performance of the various states/UTs.

Figure2: State-wise performance in 2016 EoBD assessment



PwC updates

Our work

Odisha Modernising Economy, Governance and Administration

The Department for International Development (DFID), UK, has partnered with the Government of Odisha (GoO) in the Odisha Modernising Economy, Governance and Administration (OMEGA) Programme to attain the objective of sustainable growth and poverty reduction in Odisha. The entire programme aims to achieve three major outputs:

Output 1	Output 2	Output 3
Private sector development	Revenue and expenditure	Improved public service delivery

To realise the objective of output 1, the PwC team is assisting the state government in the implementation of business-friendly reforms, developing industry-friendly policies and strengthening institutions undertaking investment facilitation and promotion activities. The team adapted a balanced approach in first creating an enabling business environment and then attracting investments. The key initiatives and activities undertaken by the team have been in the following areas:

1. Investment facilitation and implementation of EoDB reforms

To realise the objective of output 1, the PwC team is assisting the state government in the implementation of business-friendly reforms, developing industry-friendly policies and strengthening institutions undertaking investment facilitation and promotion activities. The team adapted a balanced approach in first creating an enabling business environment and then attracting investments. The key initiatives and activities undertaken by the team have been in the following areas:

i. ***Ease of doing business:*** The PwC team provided technical assistance and programme management support to the various state government departments in the implementation of the action points recommended by DIPP, GoI, for the ease of doing business ranking in the year 2015 and 2016. Based on the current assessment on the status of implementation, Odisha was recognised as a 'leader' with a score of 92.73%.

ii. ***Investment Facilitation Cell:*** To address the concerns relating to significant delays in the approval process of investment proposals and absence of a monitoring mechanism, PwC conceptualised and assisted in setting up a one-stop Investment Facilitation Cell. The new institutional mechanism ensures project approval of green category industries within 15 days and of all other industries in 30 days. Since its inception in August 2015, it has cleared multi-billion dollar investments. The team has also developed an investor's guide as a ready reckoner with step-by-step information for setting up and operating a business in the state.

iii. ***Central Inspection Framework for Industries online portal:*** To ensure a streamlined system for inspections and address the common complaints about ambiguity and overlapping mandates of regulatory authorities, PwC provided technical assistance in the conceptualisation and development of a first-of-its-kind ***Central Inspection Framework for Industries.*** The framework eliminates the process of multiple visits by inspectors to industrial units and ensures a synchronised single inspection by three inspecting authorities, namely labour, pollution control board and factories and boilers. These inspections are carried out based on a pre-determined schedule through computerised random selection of industrial units and random allocation of inspectors. The framework also ensures the availability of inspection reports online within 48 hours of the completion of inspection.

2. Policy framework

a. Industrial Policy 2015:

The PwC team assisted the state government in preparing the draft of Odisha's Industrial Policy and its operational guidelines, focusing on the promotion of priority and employment intensive sectors with special focus on creating quality infrastructure.

a. Sectoral policies:

The team has also been assisting the state government in drafting a number of other sectoral policies for the identified focus sectors of the state including:

i. Start-up Policy, 2016 (recently launched in Bengaluru)

ii. Healthcare Investment Promotion Policy

iii. Pharmaceuticals Investment Promotion Policy

iv. Biotechnology Policy

v. MSME Development Policy

Furthermore, the team has also provided inputs on the development of the Renewable Energy Policy, Textiles Policy and Food Processing Policy of the state.

3. Investment promotion

i. ***Development of marketing collaterals, a new website and a unique mobile application for investment promotion:*** PwC developed marketing collaterals, including brochures and video concepts for various sectors and industrial infrastructure projects to showcase the investment potential and opportunities in the state. PwC also developed the framework for a brand new website for investment promotion in the state. Furthermore, the PwC team conceptualised a first-of-its-kind mobile app called ***Invest Odisha***, which provides customised information about applicable incentives across various sectors and the required approvals.

ii. ***Odisha Investors' Meet:*** PwC was as the knowledge partner at two investor meets organised by the state in Mumbai and Bengaluru.

Piyush Kumar Jha

Designation: Associate Director, Public Sector and Governance, GRID

Age: 42 years

Education:

- LOMA, USA, Fellowship in Insurance, 2006
- Master of Business Administration in Finance and Marketing, IRMA Anand, 1999
- Bachelor of Arts in Economics, History and Sociology, Banaras Hindu University, 1996

Work experience: 16+ years

Worked in: India, Germany, Indonesia, Madagascar, South Africa, Nepal and Bhutan

Piyush Kumar Jha is an Associate Director with the Public Sector and Governance Team of the Government Reforms and Infrastructure Development (GRID) SBU of PwC India. He works in the areas of digital financial services and financial inclusion and micro insurance. He has hands-on experience in assisting several DFS implementations across developing economies in Asia and Africa and has worked with banks, mobile network operators (MNOs), technology service providers (TSPs) and insurance companies on distribution, strategy, product development, agent network design and management, user interface design, marketing and a host of other implementation/operational issues. Jha has also worked with Indian corporates, multinational corporations, national and international NGOs and start-ups. His expertise lies in conceptualisation, implementation and supervision of a programme at the national and state level and he has worked extensively with rural and base of pyramid (BoP) clients across geographies in partnership with central and state governments, multilateral and bilateral donors, civil societies, private sector, and Panchayti Raj institutions.

Piyush is currently involved in the implementation of a DFID-funded project which is focused on financial sector stability of Nepal. He is working closely with public stakeholders charged with financial sector stability in Nepal—principally, the Ministry of Finance, National Planning Commission, Central Bank and relevant regulatory agencies. The objective of the project is to enhance supervision and regulation of the financial sector, ensure adherence to international standards and develop public confidence, thereby leading to a more stable and robust financial sector.

Piyush has a good understanding of various facets of DFI, including payment gateways, payment methodologies such as person-to-person (P2P), person-to-bank (P2B) and digital benefits transfer (DBT). He has worked on card-based and cardless transaction through biometric and PIN-based authentication and has hands-on experience of DFI delivery channels such as POS, KIOSK and mobile (USSD app). As a subject matter expert, he assisted one of the largest telecom players in India in the launch of its mobile commerce platform which is considered the benchmark project for mobile commerce globally. Piyush played an important role in developing a financial inclusion gateway for several public sector banks in India, which ensured the availability of banking services to a large segment of the unbanked population and resulted in the opening of over a million bank accounts across India. He was part of the team that was involved in setting up of technology and distribution channels of branchless banking; the team was presented the Aadhaar Governance Award by the Prime Minister of India for Aadhaar-enabled payments to low-income beneficiaries. He helped an African bank in preparing an agency-banking roadmap for Mozambique, Namibia and Rwanda, and one of the largest Indonesian banks in its foray into branchless banking in Indonesia. He was involved in agency-banking implementation in Madagascar and assisted a state-owned bank in Bhutan in developing the digital financial entry strategy. As part of the leadership team at one of the leading players in financial inclusion in India, Piyush assisted several public sector banks in their foray into DFI.

Piyush has worked in the insurance sector during a large part of his career. He spearheaded the foray of one of the largest private sector insurance companies in India into the distribution of micro insurance products in Northern India, with a special focus on the rural market. As zonal head—rural and micro insurance, Piyush and his dedicated team successfully assisted in the expansion and deepening of the rural and micro insurance business through MFIs, NGOs, insurance brokers, business associates and a cadre of insurance agents across the region. He managed all aspects of micro insurance distribution, beginning with product and process development, setting up of distribution channels, acquisition, servicing and claim settlement. He also assisted in setting up micro insurance sales and services offices (MISOs) in different parts of North India.

Piyush started his career with an organisation set up by a World Bank project to provide business development services to women micro entrepreneurs in the backward and remote regions of India. He was involved in training and business promotion and in building the knowledge, capacity and skills of women entrepreneurs for strategic engagement in modern value chains around key forest, agriculture and allied activities. He also supported the distribution of products made by women.

About us

The Public Sector and Governance (PS&G) practice of the Government Reforms and Infrastructure Development (GRID) SBU of PwC in India has been working closely with clients in the public sector and at all levels of the government, as well as key donors such as DFID, JBIC, World Bank and ADB. A large team of full-time dedicated professionals and associates provides services to governments, multilateral and private sector clients in the areas of public finance, economics and urban infrastructure development.

In public finance and economics, the work has broadly included budget reforms, revenue augmentation strategies, performance improvement, institutional strengthening, accounting and financial management systems, debt management and automation or computerisation. In addition, the team has gained traction in the public expenditure and financial accountability (PEFA)/fiduciary risk assessment (FRA) areas with assignments across South Asia. Our economics sub-group focuses on applied economics services related to macro- and microeconomics, competition, impact assessment and business forecasting.

In urban infrastructure development, our team provides advisory services from planning to implementation, including programme management, business plans and strategies, institutional strengthening, financial management and accounting, and municipal project development, including through PPP, transaction advisory and contract management.

Most of our projects include training and capacity building of government counterparts working with the project team on specific modules.

Hon'ble CM and guests of honour during Odisha Investors' Meet held in Bengaluru on 26 August 2016 as part of the OMEGA Programme where PwC worked as a knowledge partner to the state government.

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