BANKING SYSTEM IN INDIA

A commercial bank is a type of financial intermediary as it mediates between the savers and borrowers. It does so by accepting deposits from the public and lending money to businesses and consumers. Its primary liabilities are deposits and primary assets are loans and bonds.

"Commercial bank" has to be distinguished from another type called "investment bank". Investment banks assist companies in raising funds in the capital markets (both equity and debt), as well as in providing strategic advisory services for mergers, acquisitions and other types of financial transactions. It is also called merchant bank.

The term commercial banks refers to both scheduled and non-scheduled commercial banks which are regulated under the Banking Regulation Act, 1949. The scheduled banks are those which are included under the 2nd Schedule of the Reserve Bank of India Act, 1934. The scheduled banks are further classified into: Public sector, private sector domestic banks and foreign banks. Among the public sector banks, there are nationalized banks, State Bank of India and Regional Rural Banks (RRBs).

Scheduled banks are those banks which are included in the Second Schedule of the Reserve Bank Act, 1934. They satisfy two conditions under the Reserve Bank of India Act

- paid-up capital and reserves of an aggregate value of not less than Rs 5 lakh
- it must satisfy RBI that its affairs are not conducted in a manner detrimental to the depositors.

The scheduled banks enjoy certain privileges like approaching RBI for financial assistance; refinance etc and correspondingly, they have certain obligations like maintaining certain cash reserves as prescribed by the RBI etc. Non-scheduled banks are those banks which are not included in the second schedule of the RBI Act as they do not comply with the above criteria and so they do not enjoy the benefits either. There are only 3 non-scheduled commercial banks operating in the country with a total of 9 branches. **Local Area Banks** are **Non-scheduled commercial Banks** in India. Scheduled banks comprise Scheduled Commercial Banks and Scheduled Co-operative Banks.

Currently (2017), India has 21 public sector banks that include SBI and the IDBI Bank; there are private banks and foreign banks also. Public sector banks hold over 70 percent of total assets of the banking industry. Share of public sector banks in total deposits is at 76.6 per cent.

GOI nationalized the Imperial Bank Of India in 1955 and the new bank was named as the State Bank of India. The next major nationalisation of banks took place in 1969 when the government of India nationalised an additional 14 major banks. The next round of nationalisation took place in 1980. The government nationalised six banks. The objectives behind nationalisation were:

- To break the ownership and control of banks by a few business families and thus to prevent the concentration of wealth and economic power
- To make banks into a part of socio-economic planning
- To extend banks to rural and unbanked areas
- To mobilize savings from masses from all parts of the country,

- To cater to the needs of the priority sector like weaker sections and poverty alleviation, agriculture, MSMEs etc
- From class banking to mass banking

Private Sector Banks include domestic and foreign banks.

Domestic Private Sector Banks

There are about 23 such banks. The private sector banks are divided into old and new. The old private sector banks existed prior to the nationalisation in 1969 and retained their private status because they were either too small or specialist to be nationalised. The new private sector banks came up after the liberalisation in the 1991.

The Nedungadi Bank was the first private sector bank in India.

Foreign Banks

There are more than 40 such banks operating in India.

State Bank of India

Government of India took over the Imperial Bank of India in 1955 and renamed it the State Bank of India. They were the seven regional banks of former Indian princely states, all of them were renamed with the prefix 'State Bank'. These seven banks were State Bank of Bikaner and Jaipur (SBBJ), State Bank of Hyderabad (SBH), State Bank of Mysore (SBM), State Bank of Patiala (SBP), State Bank of Travancore (SBT), State Bank of Saurashtra (SBS) and State Bank of Indore (SBI - Indore). All these banks used the same logo as its parent bank.SBI acquired the control of seven associate banks in 1960.

The plans for making SBI a mega bank with trillion dollar business by merging associate banks started in 2008 when SBS merged with SBI. The next year, SBI-Indore merged. The process for merging of 5 associate banks (State Bank of Bikaner and Jaipur, State Bank of Hyderabad, State Bank of Mysore, State Bank of Patiala and State Bank of Travancore) and Bharatiya Mahila Bank) started in 2016. The merger of these six subsidiaries was done in 2017. It makes SBI one of the top 50 banks in the world.

State Bank of Bikaner and Jaipur (SBBJ), State Bank of Hyderabad (SBH), State Bank of Mysore (SBM), State Bank of Patiala (SBP) and State Bank of Travancore (SBT), besides Bharatiya Mahila Bank (BMB), merged with SBI with effect from 1 April,2017.With this merger, the bank will join the league of top 50 banks globally in terms of assets.

The total customer base of the bank will reach 37 crores with a branch network of around 24,000 and nearly 59,000 ATMs across the country. The merged entity will have a deposit base of more than Rs.26 lakh crore and advances level of Rs18.50 lakh crore.

The combined entity will enhance the productivity, mitigate geographical risks, increase operational efficiency and drive synergies across multiple dimensions while ensuring increased customer satisfaction.

Post merger, the bank will rationalise its branch network by relocating some of the branches to maximise reach. This will help the bank optimise its operations and improve profitability. Integration of treasuries of the associate banks with the treasury of SBI will bring in substantial cost saving and synergy in treasury operations.

Lok Sabha passed the bill to repeal the SBI (Subsidiary Banks) Act 1959, State Bank of Hyderabad Act 1956 and to further amend the State Bank of India Act, 1955, following the merger of five associates with the parent SBI.

Development Banks

Development Banks are those financial institutions which provide long term capital for industries and agriculture: Industrial Finance Corporation of India (IFCI); Industrial Development Bank of India (IDBI) ; Industrial Credit and Investment Corporation of India (ICICI) that was merged with the ICICI Bank in 2000; Industrial Investment Bank of India (IIBI); Small Industries Development Bank of India (SIDBI); National Bank for Agriculture and Rural Development (NABARD); Export Import Bank of India; National Housing Bank(NHB).

The commercial banking network essentially catered to the needs of general banking and for meeting the short-term working capital requirements of industry and agriculture. Specialised development financial institutions (DFIs) such as the IDBI, NABARD, NHB and SIDBI, etc., with majority ownership of the Reserve Bank were set up to meet the long-term financing requirements of industry and agriculture. To facilitate the growth of these institutions, a mechanism to provide concessional finance to these institutions was also put in place by the Reserve Bank.

The first development bank in India- IFCI- was incorporated immediately after Independence in 1948 under the Industrial Finance Corporation Act as a statutory corporation to pioneer institutional credit to medium and large-scale. Then after in regular intervals the government started new and different development financial institutions to attain the different objectives and helpful to five-year plans.

Government utilized these institutions for the achievements in planning and development of the nation as a whole. The all India financial institutions can be classified under four heads according to their economic importance that are:

- All-India Development Banks
- Specialized Financial Institutions(SIDBI)
- Investment Institutions (The Industrial Reconstruction Corporation of India Ltd., set up in 1971 for rehabilitation of sick industrial companies)
- State-level institutions(SFC)

S.H. Khan committee appointed by RBI(1997) recommended to transform the DFI (development finance institution) into universal banks that can provide a menu of financial services and leverage on their assets and talent.

Cooperative Banks

Co-operative Banks are organised and managed on the principle of co-operation, self-help, and mutual help. They function with the rule of "one member, one vote" and on "no profit, no loss" basis. Co-operative banks, as a principle, do not pursue the goal of profit maximisation.

Co-operative bank performs all the main banking functions of deposit mobilisation, supply of credit and provision of remittance facilities.

Co-operative Banks provide limited banking products and are functionally specialists in agriculture related products. However, co-operative banks are now provide housing loans also.

Urban Co-operative Banks (UCBs) are located in urban and semi-urban areas. These banks, till 1996, were allowed to lend money only for non-agricultural purposes. This distinction does not hold today. Earlier, they essentially lent to small borrowers and businesses. Today, their scope of operations has widened considerably. Urban CBs provide working capital, loans and term loan as well.

Co-operative banks are the first government sponsored, government-supported, and government-subsidised financial agency in India. They get financial and other help from the Reserve Bank of India, NABARD, central government and state governments. RBI provides financial resources in the form of contribution to the initial capital (through state government), working capital, refinance.

Co-operative Banks belong to the money market as well as to the capital market- they offer short term and long term loans.

Primary agricultural credit societies provide short term and medium term loans. State Cooperative Banks (SCBs) and CCBs (Central Cooperative Banks at the district level) provide both short term and term loans. Land Development Banks (LDBs) provide long-term loans.

Long term cooperative credit structure comprises of state cooperative agriculture and rural development bank (SCARDB) at the state level and primary PCARDBs or branches of SCARDB at the decentralised district or block level providing typically medium and long term loans for making investments in agriculture, rural industries, and lately housing. The sources of their funds (resources) are ownership funds

- deposits or debenture issues.
- central and state government
- Reserve Bank of India
- NABARD
- other co-operative institutions

Some co-operative bank are scheduled banks, while others are non-scheduled banks. For instance, SCBs and some UCBs are scheduled banks (included in the Second Schedule of the Reserve Bank of India Act).

Co-operative Banks are subject to CRR and SLR requirements as other banks. However, their requirements are less than commercial banks.

Although the main aim of the co-operative bank is to provide cheaper credit to their members and not to maximize profits, they may access the money market to improve their income so as to remain viable.

Commercial Banks And Their Weaknesses By 1991

The major factors that contributed to deteriorating bank performance upto the end of eighties were

- lack of profitability
- high SLR and CRR
- no credit discipline as there were loan melas
- lack of competition
- directed and concessional lending for populist reasons
- administered interest rates and

The reforms to set the above problems right were

- Floor and cap on CRR were removed and floor on SLR was removed in 2006
- interest rates were deregulated to make banks respond dynamically to the market conditions. Even savings bank deposit rates were deregulated in 2011
- near level playing field for public, private and foreign banks in entry
- adoption of prudential norms- Reserve Bank of India issued guidelines for income recognition, asset classification and provisioning to make banks safer
- Basel norms adopted for safe banking
- VRS for better work culture and productivity
- FDI upto 74% is permitted in private banks
- Differentiated banking so as to cater to the unbanked and also leverage technology to reach the unreached- for the last mile access to the remotely located
- Bank consolidation
- Indradhanush comprising banking sector reforms for professionalization and strength

One of the sectors that has been subjected to reforms as a part of the new economic policy since 1991 consistently is the banking sector. The objectives of banking sector reforms have been:

- to make them competitive and profitable
- to strengthen the sector to face global challenges
- sound and safe banking
- to help them technologically modernize for customer benefit
- make available global expertise and capital by relaxing FDI norms
- inclusive banking

Narasimham Committee

Banking sector reforms in India were conducted on the basis of Narasimham Committee reports I and II (1991 and 1998 respectively), primarily the first report. The recommendations of Narasimham committee 1991 are:

- No more nationalization
- create a level playing field between the public sector, private sector and foreign sector banks
- select few banks like SBI for global operations
- reduce Statutory Liquidity Ratio(SLR) as that will leave more resources with banks for lending to businesses
- reduce Cash Reserve Ratio(CRR) to increase lendable resources of banks

- rationalize and better target priority sector lending as a sizeable portion of it is wasted and also much of it turning into non-performing asset
- introduce prudential norms for better risk management and transparency in operations
- deregulate interest rates
- Set up Asset Reconstruction Company (ARC) that can take over some of the bad debts of the banks and financial institutions and restructure them on profitable lines

Most of these reforms are implemented. SLR is 19.5% (2017) and CRR is 4%. Bank rate is aligned with MSF.Divestment in public sector banks led to their listing on the stock exchanges and their performance has improved.

Bank Loans: Good and Bad

All loans given by banks are classified as either standard or substandard loans.

Standard Assets

Standard assets are performing assets which are being serviced- repayment of principal at the interest rate that is agrred upon- as per the contract. Banks have to make a small amount of provisioning for these good loans also for security. For instance, provision for direct advance to agriculture or small and micro enterprise is 0.25% and for housing loan at teaser (low at the time of giving but sies soon) rates, it is 2%

Substandard Assets or NPAs

When the borrower pays neither the interest nor the principal for a specified period of time, the loan is said to be non-performing. When a loan is classified as NPA it goes through several phrases as the repayment gets delayed. If the borrower does not pay dues for 90 days, the loan becomes an NPA and it is termed as "Special Mention Account". If this loan remains SMA for a period less than or equal to 12 months; it is termed as Sub-standard Asset.

A sub-standard Asset requires a provision of 15 per cent on secured portion and 25 per cent on the unsecured exposure. After 12 months as Sub-Standard Asset, it gets classified as Doubtful Asset 1(DA1) and requires a provision of 25 per cent on secured portion and 100 per cent on the unsecured portion.

Once the account crosses one year as DA1, it becomes Doubtful Asset 2 (DA2-1to 3 years) and requires a provision of 40 per cent on the Secured portion and 100 per cent on the unsecured portion.

Once it crosses three years, it becomes Doubtful Asset3 (DA3) and requires 100 per cent provision irrespective of the availability of security. It is a loss making asset, in other words. Unsecured loans such as clean loans, educational loans attract 100 per cent provision even at DA1 stage.

Accounts classified as fraud need not go through all these stages and will require 100 per cent provision as soon as it is classified as NPA. Such provisions have to be made out of the profits of the year thus, eroding the bottom line.

Stressed Assets

When an asset shows wekness and is likely to become an NPA, it is considered a stressed asset. RBI allows it to be prevented from becoming an NPA by restructuring: making terms of loan softer by rescheduling the repayment period, lower interest rate, pumping additional assistance etc. They are classified as standard assets. RBI mandated the banks to make additional disclosures regarding restructured loans, which includes the number of proposals received, and the amount involved etc.

AQR

In addition to the annual inspection of bank books of banks done by the Reserve Bank of India (RBI) a special inspection was conducted in 2015-16 called Asset Quality Review (AQR). It involves a small sample of loans being inspected to check if asset classification was in line with the loan repayment and if banks have made provisions adequately.Most of the large borrower accounts were inspected to check if classification was in line with prudential norms. The RBI believed that asset classification has to be done effectively and that banks should not resort to ever-greening of accounts, that is, lend to the loanees who are in in the NPA category to show them to be standard. Banks were postponing- bad-loan classification Investors were also facing uncertainties as guidance by banks on bad loans was not proper. The impact of the AQR: banks have classified AQR-identified accounts (which were termed as stressed assets) as NPAs which resulted in an increase in provisioning to 15 per cent or more.

PAC

Prompt Corrective Action norms allow the regulator (RBI) to place certain restrictions such as halting branch expansion and stopping dividend payment on banks. It can even cap a bank's lending limit to one entity or sector. Other corrective actionthat can be imposed on banks include special audit, restructuring operations and activation of recovery plan. Banks' promoters can be asked to bring in new management, too. The RBI can also supersede the bank's board, under PCA. RBI revised the norms of PCA framework which came into effect in 2017.

The PCA is invoked when certain risk thresholds are breached. There are three risk thresholds which are based on certain levels of asset quality, profitability, capital and levels of NPA.

Stress Tests

Banks are exposed to a variety of risks- market, credit, liquidity etc- which need to be tested for their adequacy continuously. Its need was amply demonstrated when the great recession took place in 2008. A stress test is an analysis or simulation to determine the ability of a bank to deal with an economic or financial crisis. RBI undertakes such stress tests in India. Following tests are usual:

- If stock markets plunge by "x" %
- If rupee swings severely
- If inflation gallops
- If growth crashes
- If global commodity prices swing severely

Extent of The Problem

Total bad loans of India's 38 listed (on the stock exchange) commercial banks are about Rs 8 lakh crore by mid-2017 which accounts for nearly 11 percent of the total loans given by all the banks.Over 90 percent of these are of PSBs .The actual figure is around Rs 20 lakh crore if we include all troubled loans including reported bad loans, restructured assets, written off loans and bad loans that are not yet recognized.

NPAs can occur for a variety of reasons:

- Bad lending practices
- Slowdown in economy
- Discoms could not repay due to bad tariff policy .
- Steel companies are running losses due to competition from imports
- Infrastructure companies could not get clearances due to environmental reasons, natural calamities, business cycle
- willful defaulters due to crony capitalism

High levels of NPAs means

- banks' profitability diminishes
- precious capital is locked up
- cost of borrowing will rise as lendable assets shrink
- stock prices of banks will go down and investors will lose
- investment in economy suffers
- if banks have to close down, employees and despositors lose

What Is Being Done

- provisioning
- Capital adrquacy norms according to Basel 3
- securitization law
- ARCs
- foreclosure
- one time settlement
- interest waiver
- writeoffs/writdowns
- debt recovery tribunals
- CDR
- SDR
- S4A
- IBC
- Banking Regulation Act 2017
- Recapitalization bonds

Foreclosure means taking over by the lender of the mortgaged property if the borrower does not conform to the terms of mortgage.

Securitization is the process of pooling a group of assets, such as loans or mortgages, and selling securities backed by these assets.

SARFAESI Act

To expedite recovery of loans and bring down the non-performing asset level of the Indian banking and financial sector, the government in 2002 made a new law that promises to make it much easier to recover bad loans from willful defaulters. Called the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002 (SARFAESI), the law has given unprecedented powers to banks, financial institutions and asset reconstruction/securitization companies to take over management control of a loan defaulter or even capture its assets. It was further amended in 2016 to speed up the process further.

Asset Reconstruction Company

Asset Reconstruction Companies (ARCs) have been created to bring about a system for recovering Non Performing Assets (NPAs) from the books of secured lenders and unlocking the value of Non-Performing Assets (NPA). Reserve Bank of India (RBI) provides license for ARCs and regulates them. ARCs are empowered by the SARFAESI Act. Securitisation Act (Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002). It allowed selling of the assets held by banks as collalateral in case of NPAs building up. Prior to promulgation of the Securitisation Act, 2002, banks and financial institutions had no option but to enforce their security interests through the court process, which was extremely time consuming.After the enactment of the act many asset reconstruction companies (ARCs) were formed.

ARCs being the specialized agencies have NPA resolution as the core activity.

Narasimhan Committee on Banking Sector recommend them in the 1990' by way of creation of an "Asset Recovery Fund" to take the NPAs off the lender's books at a discount.SRFAESI Act, 2002 was made. ARC functions within the guidelines issued by RBI

ARC has been set up to provide a focused approach to Non-Performing Loans resolution issue by:-

- isolating Non Performing Loans (NPLs) from the Financial System (FS),
- freeing the financial system to focus on their core activities and
- Facilitating development of market for distressed assets.

As per RBI, ARC performs the following functions:-

- Acquisition of financial assets
- Change or takeover of Management / Sale or Lease of Business of the Borrower
- Rescheduling of Debts
- Enforcement of Security Interest
- Settlement of dues payable by the borrower

Insolvency and Bankruptcy Code (IBC) 2016 provides opportunity for asset reconstruction companies. Non-performing assets (NPAs) were essentially productive assets which, if turned around, would not only create additional jobs but also contribute to national output.

For this to happen, timely interventions, transparent price discovery and right management were required. GOI made arious legislative and regulatory changes that have created an enabling and supportive operational environment for ARCs and for takeover of stressed assets. These include higher ceiling of 100 per cent for FDI in ARCs, pass through status to ARC trusts for income tax, exemption from stamp duty, enabling trading of security receipts etc.

Resultant collaboration between banks, ARCs and resolution professionals could pave the way to a virtuous cycle of fresh investments, new jobs and additional demand. As a result, a number of new ARCs have sought and obtained registration during recent months. The increasing number of players in the market iss indicative of an increasing interest in the sector but also presented an opportunity for banks to offload stressed assets before fully provisioning for them.

Banking Regulation (Amendment) Act 2017

It amends the Banking Regulation Act, 1949 to allow the Reserve Bank of India (RBI) to issue directions to banks for initiating recovery proceedings against loan defaulters. These proceedings will be under the recently enacted Insolvency and Bankruptcy Code, 2016 (IBC). RBI has acted on these powers and directed banks to initiate recovery proceedings against 12 defaulters who are estimated to account for 25% of India's non-performing assets (NPAs). The RBI has also identified another 488 defaulters for which banks have been directed to finalise a resolution plan within six months.

TBS Challenge

The Economic Survey devotes considerable attention to what it terms India's Twin Balance Sheet (TBS) problem - companies overborrowed and became distressed as their investments did not yield and so could not repay to the banks who thus become mired in NPAs. Thus, the balance sheets of both the borrowing companies and lending banks are under pressure. The issue is important because it is holding up private investment in the country and therefore, growth in all sectors. Many measures are introduced by the government - from Sarfaesi Act, to Asset Reconstruction Companies, to Strategic Debt Restructuring (SDR) and the Sustainable Structuring of Stressed Assets. The steps taken so far as mentioned above did not pay off due to inherent difficulties. The Insolvency and Bankruptcy Code, 2016 (IBC).Is being put to use by the RBI in 2017 with promise of results. Recapitalisation bonds in 2017 October. The suggestion of the Economic Survey that a Public Sector Asset Reconstruction Company (PARA) be formed to buy the biggest, most complex NPAs and then dispose of them.

PARA

Economic Survey 2017 proposed that Public Sector Asset Rehabilitation Agency o(PARA) be set up to solve the NPA problem of PSBs. PARA is expected to be the special purpose vehicle that will raise money by issuing government bonds with which it will buy the big bad loans of the PSBs. The proposal has advantages of relieving the banks of NPAs; settling the issue faster than when each bank has to settle independently; get better bargain as there is only ne buyer etc. It is the 'bad bank' that the country has been debating for some years.

S4A

RBI took many steps in relation to NPAs. The S4A is one. The scheme seeks to solve the TBS challenge- rwin balance sheet, by converting a portion of large loan accounts into equity shares.For a distressed company to be eligible for S4A, the RBI has put down three conditions. The project must be operating and already generating cash. The total loans to the entity should be ₹500 crore or more.The lending banks are required to engage an independent agency to evaluate how much of the debt is 'sustainable'. For the loan to be eligible for S4A, at least 50 per cent of it should be 'sustainable'.

Strategic Debt Restructuring

The RBI in its "Framework for Revitalising Distressed Assets in the Economy – Guidelines on Joint Lenders' Forum (JLF) and Corrective Action Plan (CAP)", in 2015 suggested change of management as a part of restructuring of stressed assets. RBI suggests that Joint Lenders' Forum (JLF) should actively consider such change in ownership and take necessary action.

Prudential Norms

For the safety of banking operations, they need to follow prudential norms.Prudential norms relate to

- income recognition
- asset classification
- provisioning for NPAs
- capital adequacy norms(capital to risk-weighted asset ratio, CRAR).

A proper definition of income is essential in order to ensure that banks take into account income that is actually realized (received). It helps in classifying an asset as NPA in certain cases. Once classified as NPA, funds must be set apart to balance the bank's operations so as to maintain safety of operations in case of non-recovery of NPAs. Thus, income recognition, asset classification and provisioning norms are inter-related.

Prudential norms make the operations transparent, accountable and safe.

Prudential norms serve two primary purposes: bring out the true position of a bank's loan portfolio and help in prevention of its deterioration.

Safety of Banks And Basel Norms

Banks lend to different types of borrowers and each carries its own risk. They lend the deposits of public as well as money raised from the market- equity and debt. The intermediation activity exposes the bank to a variety of risks. Cases of big banks collapsing due to their inability to withstand are many. Therefore, banks are recommended to to keep aside a certain percentage of capital as security against the risk of non-recovery. Basel committee provided the norms called Basel norms to tackle the risk.

Basel Norms

The Basel Accords is a set of recommendations for regulations for the banks. The **Basel Accords** —Basel I, Basel II and Basel III— are issued by the Basel Committee on Banking Supervision (BCBS). They are called the Basel Accords as the BCBS maintains its secretariat at the Bank for International Settlements in Basel, Switzerland and the committee normally meets there.

The aim of the Basel Accords is to ensure that banks and other financial institutions have enough capital to meet their obligations to depositors and other stakeholders and absorb unexpected losses.

Basel III

It is a global, voluntary regulatory framework on bank capital adequacy, stress testing, etc. It was agreed upon by the members of the Basel Committee on Banking Supervision in 2010–11, and was introduced in 2013 to be adopted till 31 March 2019. It was developed in response to the deficiencies in financial regulation revealed by the financial crisis of 2007–08. The major thrust area of Basel III is improvement of quantity and quality of capital of banks, with stronger supervision, risk management and disclosure standards.

Under Basel III norms, banks need to have a total capital adequacy ratio of 11.5% against 9% now.

Three Pillars

Apart from the risks which make up Pillar 1, there are two more Pillars of Basel regulations. Pillar 2 Enlarges the role of banking supervisors.Pillar 3 Defines the standards and requirements for higher disclosure by banks on capital adequacy, asset quality and other risk management processes.

Basel norms cover a variety of risks- **credit risk, market risk and operational risk.**

Credit risk: A bank always faces the risk that some of its borrowers may not repay loan, interest or both. This risk is called credit risk, which varies from borrower to borrower depending on their credit quality. Basel II requires banks to accurately measure credit risk to hold sufficient capital to cover it.

Market risk: As part of the statutory requirement, in the form of SLR (statutory liquidity ratio), banks are required to invest in liquid assets such as cash, gold, government and other approved securities. For instance, Indian banks are required to invest 19.5% of their net demand and term liabilities in cash, gold, government securities and other eligible securities to comply with SLR requirements (2017). Such investments except the government securities (which carry zero risk) are risky as prices fluctuate. It is known as the market risk as the value of the investments depends on market forces.

Operational risk :Several events that are neither due to default by third party nor because of the vagaries of the market make up the operation risk like fraud, security, privacy protection, legal risks, physical (e.g. infrastructure shutdown) or environmental risks.

Capital Adequacy Norms

Banks need to have adequate capital- profits or share capital and debt capital- to absorb a variety of risks. It is set at a certain level as Capital Adequacy Ratio (CAR) which is the same as Capital to Risk (Weighted) Assets Ratio (CRAR). It is expressed as a percentage of a bank's risk weighted credit exposures.Its purpose is to protect depositors and promote stability and efficiency of financial systems around the world.RBI mandated the CAR norms for Basel 3 for Indian banks. It is fixed at 9% which is higher than the international norm of 8%.Under Basel III norms, a countercyclical capital buffer is prescribed: keep aside capital that can be used when the cycle turns down due to slowdown or recession and the loans may turn bad.

CAR

Banks lend to different sectors. Historically, each of these sectors- agriculture, students, exporters, infrastructure etc are calculated to have certain quantified level of risk. Banks need t keep aside capital as a security in case of non-recovery. That is, all bank loans are risk-weighted assets except bogernment bonds which carry zero risk. This type of asset calculation is used in determining the capital requirement or Capital Adequacy Ratio (CAR) for a bank. Government debt is allowed a 0% "risk weighting" that is, they are subtracted from total assets for purposes of calculating the CAR.

India and CAR

As per the Reserve Bank of India direction, the Basel III capital regulation is being implemented from April 1, 2013 in India in phases, and it will be fully adopted as on March 31, 2019. India witnessed three important structural reforms demonetisation, Goods and Services Tax (GST), Real Estate Regulatory Authority (RERA) which are impacting Indian economy and the banking sector.The country's banking sector, which is the key driver of Indian economy, is currently going through challenging times due to low credit growth, deterioration in asset quality and low profitability.

Basel III norms require Indian banks to mobilise up to Rs 4,20,000 crore by 2019. PSBs can not generate profits for the reasons cited above. To raise debt or equity from the market to this extent is also very difficult as investors confidence is low. Even if the PSBs can raise equity, it will mean that the government holding in them will fall closer to 50% and the government is not ready for it. Therefore, under Indradhanush initiative, GOI is taking up recapitalization of banks. In fact the earlier commitments of 2015 under the scheme are being scaled up significantly with the issue of recapitalization and the bonds that were announced in October 2017.

BIS

The Bank for International Settlements (BIS) is an international financial institution owned by central banks which "fosters international monetary and financial cooperation and serves as a bank for central banks". The BIS carries out its work through its meetings, programmes etc. It also provides banking services, but only to central banks and other international organizations. It is based in Basel, Switzerland. The mission of the BIS is to serve central banks in their pursuit of monetary and financial stability, to foster international cooperation in those areas and to act as a bank for central banks. Sixty member central banks or monetary authorities are there in BIS including India.

Bank Run

There are times when people are not confident about their bank's capacity to honour its financial commitments. They fear its insolvency for any number of reasons When a large number of such customers of a bank want to withdraw their deposits at the same time due to such concerns , the bank's resources get even more depleted , the likelihood of default increases, thereby prompting more people to withdraw their deposits. It is known as a bank run.

Shadow Banks

There are many financial institutions that perform functions like banks- raise deposits and equity, float bonds and so on and lend them to investors and consumers – but are not covered by the stringent regulations like banks. Some of them are floated by the banks themselves like mutual funds, investment banks, housing finance bodies etc. They are refered to as shadow banking system. Because of their lax conduct, some say the sub-prime crisis of 2008 resulted.

Universal Banking in India

A universal bank is one that follows a " cafeteria" approach to financial services by offering all of them itself- retail, wholesale and investment banking services under one roof.It is both a commercial bank and an investment bank as well as providing other financial services such as insurance. Thus, it is a "full-service" bank providing wealth and asset management, housing and auto finance, trading, underwriting, consultancy, financial advisory etc. All commercial banks in India are universal banks. Reserve Bank of India appointed committee — Khan Working group — in 1998 recommended universal banking as was done earlier by the Narasimham Committee in 1988. It has advantages like better use of given human, financial and institutional resources. Disadvantage is that the regulatory norms not being strict for the non-banking activities, they can derail the entire bank as it happened in the sub-prime crisis in 2008 in the USA.

Writeoff, Writedown and Haircut

Hair cut in bank parlance is when an asset value is brought down as it can not be realized in full. For example, a loan that is given may not be recovered fully or at all. The first case is one of wtite down and the latter is writeoff. Both are examples of hair cut.

Insolvency and Bankruptcy Code 2016

Insolvency and Bankruptcy Code 2016 was passed in the Budget session of Parliamment in 2016 and came into effect.

Background

Till IBC came into effect, India did not have effective legal and institutional machinery for dealing with debt defaults as per the global standards. The recovery proceedings by creditors, either through the Contract Act or through special laws such as the Recovery of Debts due to Banks and Financial Institutions Act, 1993 and the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, has not had desired outcomes. Similarly, action through the Sick Industrial Companies (Special Provisions) Act, 1985 (SICA) and the winding up provisions of the Companies Act, 1956 were ineffective. Laws dealing with individual insolvency, the Presidency Towns Insolvency Act, 1909 and the Provincial Insolvency Act, 1920, were outdated. This has hampered the confidence of the lender. The new law aims to consolidate the laws relating to insolvency into a single legislation and provide for their reorganization and resolution in a time bound manner for maximization of value of their assets. This law will thus promote entrepreneurship, availability of credit and balance the interest of all stakeholders. The Code empowers the employees, suppliers etc. also to initiate the insolvency resolution process upon non-payment of dues. In order to develop the credit market in India, in case of liquidation, financial debts owed to unsecured creditors have been kept above the Government's dues in the list of priorities. Facilitating early resolution and exit is as important as facilitating investment. When decisions are taken in a time-bound manner, there is a greater chance that the corporate entity can be saved as a going concern, and the productive resources of the economy (labour and capital) can be put to the best use. This is in complete departure from SICA regime where there were delays leading to destruction of the value of the firm.

The 2016 Code is systemic reform to address this problemand covers borrowing by firms and also by individuals.

The Code separates commercial aspects of the insolvency proceedings from judicial aspects. While Insolvency Professionals (IPs) will deal with commercial aspects such as management of the affairs of the corporate debtor, facilitating formation of committee of creditors, organising their meetings, examination of the resolution plan, etc., judicial issues will be handled by Adjudicating Authorities (National Company Law Tribunal / Debt Recovery Tribunal). One more important institution created under the Code is the 'Information Utility' which would store financial information and data and terms of lending in electronic databases. This would eliminate delays and disputes about facts when default does take place. The Code also addresses the important issue relating to cross border insolvency by providing the enabling mechanism on the subject. The Government, at an appropriate time, will come out with a detailed framework for cross border insolvency. The Code will give a big boost to ease of doing business in India.

Highlights of the Code

Insolvency is a situation when an individual/firm is unable to meet the financial obligations due to its creditors. Bankruptcy, on the other hand, is a legally-declared status that an individual/firm cannot repay debts.

The 2016 Code seeks to speed up the process of resolution and do justice to stake holders. The Code creates various institutions to facilitate resolution of insolvency. These are as follows:

- *Insolvency Professionals*: A specialised cadre of licensed professionals is proposed to be created. These professionals will administer the resolution process, manage the assets of the debtor, and provide information for creditors to assist them in decision making.
- *Insolvency Professional Agencies*: The insolvency professionals will be registered with insolvency professional agencies. The agencies conduct examinations to certify the insolvency professionals and enforce a code of conduct for their performance.
- *Information Utilities*: Creditors will report financial information of the debt owed to them by the debtor. Such system by creating a data base tracks serial defaulters.Such information will include records of debt, liabilities and defaults.
- *Adjudicating authorities*: The proceedings of the resolution process will be adjudicated by the National Companies Law Tribunal (NCLT), for companies; and the Debt Recovery Tribunal (DRT) for individuals. The duties of the authorities will include approval to initiate the resolution process, appoint the insolvency professional, and approve the final decision of creditors. The NCLT appoints an insolvency professional or 'Resolution Professional' to administer the IRP. The Resolution Professional's primary function is to take over the management of the corporate borrower and operate its business as a going concern under the broad directions of a committee of creditors. Therefore, the thrust of the Code is to allow a shift of control from the defaulting debtor's management to its creditors, where the creditors drive the business of the debtor with the Resolution Professional acting as their agent.

representation. Its recommendations related to PSBs and private banks. Main recommendations of the Committee are:

Ownership of Public Sector Banks (PSBs): All PSBs should be incorporated under the Companies Act, 2013. The government should transfer its holdings in PSBs to a Bank Investment Company (BIC). Some of the constraints faced by PSBs could be removed if the government reduces its holding below 50%.

Board appointments in PSBs: The process of board appointments in PSBs needs to be professionalised in a three-phase process. In the first phase, a Banks Board Bureau should advise on all board appointments. In the second phase BIC should take over the process. In the third phase, BIC should delegate these powers to PSBs' boards.

It suggested a fixed term of 5 years for the chairman/managing director of a bank and a term of 3 years for a whole-time director.

Bank Consolidation

The consolidation of PSBs , which have a market share of about 70% and account for over 80% of the bad loans in the Indian banking system, is aimed at building scale , strengthening their risk-taking ability, operational efficiency, deal better with their credit portfolio, including stressed assets, prevent duplication of bank branches in the same area and strengthens banks to deal with shocks.

The government wants that this, along with measures such as capital infusions in weak banks, will cause a revival.The government is looking to reduce the number of staterun banks to 10-15 through mergers and acquisitions In case of consolidation, GOI factors in balance sheet, integration of technology and people.

GOI in October 2017 set up a ministerial panel, headed by Union Finance Minister Arun Jaitley, to consider and oversee mergers among the country's 21 state-run banks.

SBI has merged operations of five of its associate banks and Bharatiya Mahila Bank with itself earlier this year, marking the first consolidation move in the sector following the bad loan crisis. The merger has reduced the number of state-controlled banks to 21 from 26.The government announced infusing capital in excess of the ₹20,000 crore promised as part of the Indradhanush plan over this fiscal year and the next.Under the Indradhanush scheme introduced in 2015, the government had agreed to infuse ₹70,000 crore in state-run lenders over four years. In October 2.11 lakh crores of rupees is committed for rrecapitalisation.

Critics disagree. The objections are that it is a tactical decision to address the NPA issues and so will be damaging in the long run. Employee rationalization is also worrying some.

The idea of bank mergers has been around since at least 1991, when former Reserve Bank of India governor M. Narasimham recommended the government merge banks into a threetiered structure, with three large banks with an international presence at the top. In 2014, the P. J. Nayak panel suggested that the government either merge or privatize stateowned banks.

Indradhanush

To revive the NPA-burdened public sector banks, government introduced in 2015 a seven-point plan called 'Indradhanush.'

The Indradhanush strategy consists of

- Appointments
- Bank of Board Bureau
- Capitalization
- De-Stressing Public Sector Banks
- Empowerment
- Framework of accountability
- Governance Reforms

Details

- **Appointments:** Executives from the private sector have been engaged to head state-owned banks.
- **Bank Board Bureau (given ahead)**
- **Capitalization:** Over the next four years, the government plans to inject Rs 70,000 crore.
- **De-stressing:** Due to lending to large projects turning bad, NPAs has resulted and the GOI will de-stress the banks' bad loans by a variety of means like CDR, SDR, S4A etc.
- **Empowerment:** it is about Government's non-interference in the management of banks. The Government intends to provide greater flexibility in hiring manpower to Banks.
- **Framework of Accountability:** The government also announced a new framework of key performance indicators for state-run lenders to boost efficiency in functioning while assuring them of independence in decision making on purely commercial considerations.
- **Governance Reforms:** The process of governance reforms is centered around "Gyan Sangam" - a conclave of PSBs and FIs organized at the beginning since 2015 as a Retreat for Banks and Financial Institutions" to take forward the Government's commitment to reforms in the banking and financial Sector

Banks Board Bureau

The Bureau is an autonomous body, responsible for: (i) making recommendations on heads of public sector banks and financial institutions, and (ii) helping banks with developing strategies and raising capital. The Bureau is headed by Mr. Vinod Rai, former Comptroller and Auditor General of India and six other members. A committee set up by the RBI to review the governance of bank boards, headed by P.J. Nayak, in 2014 had suggested the formation of the bureau as a the first stage in a phaseed process to empower the boards of public sector banks. BBB aims to 'professionalize and depoliticize" the appointment process. The objective of BBB is to help prepare the banks in the public sector to take on the competition, have the ability to manage risk across business cycles. The Bureau is engages with the Public Sector Banks (PSBs) to help build capacity to attract, retain and nurture both talent and technology.

Differentiated Banking

In a dynamic growth-oriented economy, the financial sector needs to keep pace with the demands of the real sector. It is crucial that the financial system is flexible and competitive to cope with multiple objectives and demands made on it by various constituents of the economy. The financial sector catering to different segments, ranging from retail to wholesale, micro-finance, nurturing specific sectors and offering specialised services and tailor-made products to niche segments, is crucial for economic growth and financial inclusion.

There has been movement towards differentiated banking in the country since Nachiket Mor Committee in 2013. Differentiated banks are distinct from universal banks as they function in a niche segment. The differentiation could be on account of capital requirement, scope of activities or area of operations. As such, they offer a limited range of services / products or function under a different regulatory dispensation. The concept is not entirely new. In fact, and in a sense, the UCBs, the PACS, the RRBs and LABs could be considered as differentiated banks as they operate in localized areas.

Reserve Bank of India (RBI) in recent years has issued licences and debated upon the need for niche banks and put new lending systems in place as it seeks to widen sources of funding in the economy.For example, in 2016 RBI gave in-principle approval to 10 small finance banks and 11 payments banks. Wholesale and Long-Term Finance (WLTF) banks are under discussion.

The Reserve Bank of India released a Discussion Paper on 'Wholesale & Long-Term Finance Banks'.As envisaged in the discussion paper, the Wholesale and Long-Term Finance (WLTF) banks will focus primarily on lending to infrastructure sector and small, medium and corporate businesses. They may have negligible retail sector exposure on asset side.

Small Finance Banks

Small finance banks are a part of differentiated banking in India focused on basic banking service of acceptance of deposits andlending for financial inclusion to sections of the economy not being served by other banks, such as small business units, small and marginal farmers, micro and small industries and unorganised sector entities.

The Small Finance Bank (SFB) is a private financial institution that can operate without any restriction in the area unlike Regional Rural Banks or Local Area Banks.The minimum capital for SFBs is prescribed at Rs. 100 crore. Foreign Investment is permitted as in the case of other private sector commercial banks.

SFBs are full spectrum banks in contrast to payments banks. Hence, they are subject to all prudential norms and regulations of RBI as applicable to existing commercial banks like maintenance of Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR).

SFBs are required to extend 75 per cent of credit to the sectors eligible for classification aspriority sector lending (PSL) by the Reserve Bank. At least 50 per cent of its loan portfolio should constitute loans and advances of upto Rs. 25 lakh.

SFBs can undertake other non-risk sharing financial services activities, not requiring any commitment of own fund, such as distribution of mutual fund units, insurance products, pension products, etc. SFBs can set up dealership in foreign exchange business SFBs cannot set up subsidiaries to undertake non-banking financial services activities.

There will not be any restriction in the area of operations of small finance banks; however, preference will be given to those applicants who in the initial phase set up the bank in a cluster of under-banked States / districts. It is mandatory that at least 25 per cent of its branches shall be in unbanked rural centers.

Equitas Small Finance Bank Ltd and Ujjivan Small Finance Bank Ltd are listed entities.Mumbai-based Suryoday Small Finance Bank Ltd, Varanasi based Utkarsh Small Finance Bank and Kerala based ESAF Small Finance Bank Ltd started operations by 2016. North East Small Finance Bank Limited commenced operations from 2017.

Following are ligible to apply

- Existing Non-Banking Finance Companies (NBFCs),
- Micro Finance Institutions (MFIs), and
- Local Area Banks (LABs) that are owned and controlled by residents can also opt for conversion into small finance banks.

The concept of small finance banks was one of the recommendations in the 2009 Report - A Hundred Small Steps - of the Committee on Financial Sector Reforms headed by Dr. Raghu Ram Rajan.

Payments Banks

Payments banks are a new type of bank conceptualised by the Reserve Bank of India (RBI). These banks can accept a restricted deposit, which is currently limited to ₹1 lakh per customer and may be increased further. These banks cannot issue loans and credit cards. Both current account and savings accounts can be operated by such banks. Payments banks can issue services like ATM cards, debit cards, net-banking and mobile-banking.

The bank should be fully networked from the beginning. The bank can accept utility bills. It cannot form subsidiaries to undertake non-banking activities. The bank cannot undertake lending activities. 25% of its branches must be in the unbanked rural area. The bank must use the term "payments bank" in its name to differentiate it from other types of bank. The banks will be licensed as payments banks under Banking Regulation Act, 1949, and will be registered as public limited company under the Companies Act, 2013.

India has 4 payments banks by 2017: The first such bank was Airtel Payments Bank Ltd, followed by India Post Payments Bank Ltd , Paytm Payments Bank Ltd and ,Fino Payments Bank Ltd.

India Post Payments Bank (IPPB)

In 2014, a task force was formed by GOI to study ways in which the existing postal network could be used more, headed by T. S. R. Subramanian. It said that more services should be provided in the field of banking, insurance and e-commerce. In 2015, during the presentation of the Budget, it was announced that India Post will use its large network to set up a payments bank. IPPB became operational from 2017. It is the third entity after Airtel and Paytm payments bank, to get the central bank's approval and the second after Airtel Payment Bank to commence operations.

India Post Payments Bank (IPPB) is set up as a public limited company under the Department of Posts with 100 per cent government equity.

India Post has about 1,54,000 post offices, of them 90% are in rural areas. There is one post office for every 7176 people in India. India Post also has 2,96,000 agents in the rural area. About 2.2 crore people, already receive their National Rural Employment Guarantee Act (NREGA) payments by post offices. After State Bank of India, India Post has the largest deposits valued at ₹6 lakh crore.T. S. R. Subramanian Committee said that it could aid in the ongoing Pradhan Mantri Jan Dhan Yojana financial inclusion plan

D. IPPB will offer demand deposits such as savings and current accounts upto a balance of Rs 1 Lac, digitally enabled payments and remittance services of all kinds between entities and individuals and also provide access to third party financial services such as insurance, mutual funds, pension, credit products, forex, and more, in partnership with insurance companies, mutual fund houses, pension providers, banks, international money transfer organisations, etc.

The four key features of IPPB are:
Financial literacy: IPPB aims to make India prosperous by ensuring that everyone has equal access to financial information and services.

Streamlining payments: Beneficiaries can access income from government's DBT programs like MNREGA wages, Social Security Pensions and scholarships, directly from their IPPB bank account. They can also pay their utility bills, fees for educational institutions and many more from the same IPPB account.

Financial inlcusion: Hundreds of millions of Indians who don't have access to banking facilities cannot avail of government benefits, loans and insurance, and even interest on savings. IPPB will reach the un-banked and the under-banked across all cross sections of society and geographies.

Easy access: With over 1.54 lac post offices across the country, postal delivery system will make IPPB an accessible banking network. IPPB also offers services through internet and mobile banking, and prepaid instruments like mobile wallets, debit cards, ATMs, PoS and MPoS terminals etc.

MUDRA Bank

Micro Units Development Refinance Agency (MUDRA) Bank is a refinance institution for micro-finance institutions. It aims to provide the funding to the non corporate small business sector. MUDRA is conceived not only as a refinance institution and but also as a regulator for the micro finance institutions (MFIs).

The MUDRA Bank is primarily be responsible for

- Laying down policy guidelines for micro/small enterprise financing business
- Registration of MFI entities
- Regulation of MFI entities
- Accreditation /rating of MFI entities
- Promoting right technology solutions for the last mile
- Formulating and running a Credit Guarantee scheme for providing guarantees to the loans which are being extended to micro enterprises

- Creating a good architecture of Last Mile Credit Delivery to micro businesses under the scheme of Pradhan Mantri Mudra Yojana.

Union Budget 2015-16 proposed to create MUDRA with a corpus of Rs. 20,000 crore made available from the shortfalls of Priority Sector Lending. There is a credit guarantee corpus of Rs.3,000 crore for guaranteeing loans being provided to the micro enterprises. MUDRA Bank will refinance Micro-Finance Institutions through a Pradhan Mantri Mudra Yojana.

MUDRA Bank operates through regional level financing institutions who in turn connect with last mile lenders such as Micro Finance Institutions (MFIs), Small Banks, Primary Credit Cooperative Societies, Self Help Groups (SHGs), NBFC (other than MFI) and such other lending institutions.

In lending, MUDRA gives priority to enterprises set up by the under-privileged sections of the society particularly those from the scheduled caste / tribe (SC/ST) groups, first generation entrepreneurs and existing small businesses. There are estimated to be some 5.77 crore small business units in India, mostly individual proprietorship, which run small manufacturing, trading or service businesses. 62% of these are owned by SC/ST/OBC.

MUDRA Bank is proposed to be set up through an enactment of law and it will take some time. To begin with, the same is being operationalised as a subsidiary of Small Industries Development Bank of India (SIDBI). The micro finance institutions (MFIs) can become Member Lending Institutions (MLIs) with MUDRA (SIDBI) Bank for refinance and with National Credit Guarantee Trustee Company (NCGTC) for credit guarantee.

PMMY

The Pradhan Mantri MUDRA Yojana (PMMY) is a scheme launched by the Union Government in 2015 for providing loans upto Rs. 10 lakh to the non-corporate, non-farm small/micro enterprises. Under PMMY, all banks viz. Public Sector banks, Private Sector Banks, Regional Rural Banks (RRBs), State Co-operative Banks, Urban Co-operative Banks, Foreign Banks and Non-Banking Finance Companies (NBFCs)/Micro Finance Institutions (MFIs) - are required to lend to non-farm sector income generating activities below Rs.10 lakh. These loans are classified as **MUDRA loans** under PMMY.

For implementing the Scheme, government has set up a new institution named, MUDRA (Micro Units Development & Refinance Agency Ltd.), for development and refinancing activities relating to micro units, in addition to acting as a regulator for the micro finance sector, in general. MUDRA provides refinance to all banks seeking refinancing of small business loans given under PMMY. Thus, MUDRA refinances all *Last Mile Financiers* - Non-Banking Finance Companies of various types engaged in financing of small business, Societies, Trusts, Section 8 Companies [formerly section 25], Co-operative Societies, Small Banks, Scheduled Commercial Banks and Regional Rural Banks - which are in the business of lending to Micro/Small business entities engaged in manufacturing, trading and services activities.

The purpose of PMMY is to provide funding to the non-corporate small business sector. Non-Corporate Small Business Segment (NCSBS) consists of millions of proprietorship/ partnership firms running as small manufacturing units, service sector units, shopkeepers, fruits/ vegetable vendors, truck operators, food-service units, repair shops, machine operators, small industries, artisans, food processors and others, in rural and urban areas. One of the biggest hurdles to the growth of entrepreneurship in the Non-Corporate Small Business Sector (NCSBS) is lack of financial support to this sector and a vast majority belonging to this sector do not have access to formal sources of finance.

Under the aegis of PMMY, the MUDRA created its initial set of products/ schemes. The interventions have been named 'Shishu' (meaning infant), 'Kishor' (meaning child) and 'Tarun' (meaning adolescent) to signify the state of growth/development and funding needs of the beneficiary micro unit/entrepreneur and also provide a reference point for the next phase of graduation / growth to look forward to:

- *Shishu:* covering loans upto Rs. 50,000/- provided with no collateral, @1% rate of interest/month repayable over a period of 5 years
- *Kishor:* covering loans above Rs.50,000/- and upto Rs. 5 lakh
- *Tarun:* covering loans above Rs. 5 lakh to Rs. 10 lakh

To begin with, MUDRA has enrolled 21 Public Sector Banks, many private sector banks, Regional Rural banks and Micro Finance Institutions as partner institutions for channelizing assistance to the ultimate borrower.

A minimum of 60% of support would flow to enterprises in the smallest segment. Partner intermediaries of MUDRA Bank have to endeavour to adhere to the following broad framework:

- First time entrepreneurs, youth entrepreneurs (i.e. entrepreneurs aged upto 30 years) and women entrepreneurs shall be encouraged and special schemes shall be designed for such entrepreneurs.
- Emphasis shall be on cash flow based lending and not security based lending. Collateral securities, etc. shall be avoided.
- Repayment obligations shall be flexible and shall be framed keeping in view the business cash flows of the entrepreneur.

Recapitalisation

It has been in news since many years as PSBs are in need of capital both the meet basel3 norms by 2019 and also to withstand the impat of NPAs. Indradhanush in 2015 commits the government to recapitalization. The October 2017 bonds take the process further. Banks like other corporate entities have equity and debt making up their capital in a certain ratio. Changing the ratio is called recapitalization. It can happen by infusion of fresh capital or conversion of debt into shares or vice versa.

In general, the aims of recapitalization may be:

- Desire of current shareholders to partially exit the investment
- Providing support of falling share price
- Protection from a hostile takeover

October 2017

2.11 lakh crores of bank recapitalisation plan spread over 2 years, announced for the PSBs in October 2017 seeks to bail out the NPA-inflicted entities to stimulate the flow of credit to spur private investment. Out of the total commitment, Rs1.35 lakh crores will come from the sale of recapitalisation bonds. The remaining Rs76,000 crore will be through budgetary allocation and fundraising from the markets. Banks will buy the bonds with their deposits. It fetches them interest. GOI on its part will buy shares of the PSBs and infuse the equity capital into them. Today, PSBs do not have adequate capital to lend the deposits that they are sitting on. Recapitalisation will help them solve this problem. Interest will be paid from budget. Banks' health will improve as they start lending. Share prices of the banks will rise. GOI will sell these shares at a higher price to redeem the bonds. Thus, it is a win-win solution.

GOI did it in the early 1990s the PSBs saw a severe erosion in their profitability and capital base due to reckless lending to the priority sector in the preceding decade.

The advantages of the bonds are that the same money need not be raised by taxing the citizen; by borrowing directly from the banking system instead of the markets, the Centre can avoid crowding out private borrowings. Coupled with Bharatmala in 2017, it can aid "crowding in"; borrowing costs are lower for the GOI than the PSBs that are weak; banks will find the investment in these bonds safe and they just need to divert the SLR excess investment; But there are downsides too: will the banks lend again as they did, without due diligence; nation's debt-to-GDP ratio will rise; fiscal deficit calculation also matters.

It needs to he stressed that unless used to start a new chapter in PSB governance driven by recommendations selectively from PJ Nayak committee and BBB, this policy may not make much of a difference.

FDI In Banks

FDI in India banks is allowed. In PSBs, 20% of FDI is allowed and in private banks it is 74%- upto 49% it is automatic and beyond that it is on approval basis. However, voting rights are capped in national interest at 10%.

Foreign Banks: Subsidiary Vs Branch

Indian Government allows foreign banks to operate by registering as a branch office or by incorporating a subsidiary. A branch office is a considered an extension of the parent company and is not considered a separate legal entity. The assets and liabilities of branch office are considered as merged with the parent office. Subsidiary has a separate legal status; there is Indian investment; assets and liabilities are separate. It has to have a separate management in India. Any losses incurred by parent can not be offset by subsidiary's assets. This arrangement protects Indian capital and operations from external economic shocks as such outfits follow local guidelines. It can raise capital from Indian share market as a separate entity.

At present, most foreign banks operate as branches or representative offices of the parent.

BALANCE OF PAYMENTS

Balance of payments is an overall statement of a country's economic transactions with the rest of the world over some period- usually one year. It includes all outflows and inflows (payments and receipts). Countries have either balance of payment surplus or a balance of payment deficit. Balance of payments can be broken down into balance of trade (export & import of goods); balance of current account (includes the balance of trade, the balance of services and remittances; and capital account (investment and borrowing). Trade account is a part of the current account. Capital account deals with investment and borrowings and the rest of the BOP is the current account of which foreign trade is a part.

India's Balance of Payments (BOP) Crisis in 1991

The 1990s witnessed some major changes on India's balance of payments front. The decade began with a crisis caused both by the immediate Gulf war and the cumulative problems of the Indian economy. It led to an IMF-sponsored bail out.

The Gulf crisis of 1990-91 and the subsequent rise in crude prices rudely exposed the inadequacy of reserves. India has been dependent on crude imports. International crude pirces are very crucial for out BOP condition. When there was geopolitical disturbance due to Iraq crisis, crude prices shot up as our import bill. Tourism dropped. It depleted our foreign exchange reserves. International rating agencies downgraded India. This fuelled the crisis further as India's credit worthiness plunged. A substantial outflow of deposits held by Non-resident Indian during 1990-91 added to the crisis. Reserves declined to a low of $0.9 billion in January 1991. India had to pledge gold in May 1991 and again in July 1991 to avoid a default on its short term obligations. Further, in October 1991, India forex through India Development Bonds and Foreign Exchange Immunity Scheme.

Confidence building measures were taken up after the new Rao government was formed in June 1991. The rupee was devalued and brought closer to the market value as earlier it was artificially overvalued. International investors saw in this reform progress towards market orientation. Indian exporters felt encouraged as their earnings in foreign currency would fetch them more rupees.

Devaluation is a precursor to the beginning of rupee convertibility. We need to pause and get clear about a cluster of concepts- all being interrelated.

Devaluation And Depreciation

When the exchange rate of a country's currency is fixed, the central bank may choose to lower its value by its decision. That is called devaluation. The result is a new rate that is fixed by the central bank with respect to a foreign reference currency, for example, US dollar. Depreciation also has the same effect of lowering the value of the domestic currency but market forces are behind it and not the policy decision of the central bank. Market forces operate under a floating exchange rate.

When the central bank increases the value of the currency, it is called revaluation. Same increase in value taking place as a result of market forces of demand and supply makes it appreciation. The causes and effects of these changes on value will discussed ahead in the book. *Exchange rate* is the value (price) of one currency in terms of another.

Convertibility of Rupee

Convertible currencies give freedom to the holders of the currency to convert them freely into other currencies at the prevailing market rate. For example, one who has Indian rupees with him can convert them into foreign currencies if rupee is convertible. Balance of payments lists covers a vast number of transactions from trade, remittances by foreign workers to loans and investment. All these transactions of a country with the rest of the world are classified broadly into current and capital accounts. Current account includes foreign trade in physical goods(merchandise) and invisibles which are foreign trade in services like software, knowledge process outsourcing based earnings , consulting services, shipping services, tourism, and royalty on patents; and also movements of money without exchange for goods or services called 'remittances' and may include money sent from one country to another by an individual, business, government or non-governmental organisations (NGO) – like charities. India was the topmost country for remittances in 2016 at $62.7 billion sent by its diaspora. It includes what is sent as a part of what is earned as wage, interest, profit or rent.

In the BOP when one overlooks the current account part that is detailed above, the rest is loan and investment and that is called the capital account. The same information helps us to differentiate between balance of trade and the balance of payments. 'Balance of trade' is the foreign trade part of the overall balance. Trade is a part of current account. But current account also includes remittances. Thus, BOP is trade which is a part of current account; and capital account.

The larger the scope of convertibility that is permitted by a country, the stronger and the more resilient its economy is said to be, according to its proponents. No country grants full convertibility - restricts it for certain purposes and excluding certain other purposes. For example, the trade account convertibility is confined to exports and imports and certain associated aspects like remittances (what Indians living abroad send to their friends and relatives in India), tourism, etc. Even here, restrictions are imposed after a point. Convertibility for investment and borrowing abroad comes under capital account convertibility.

Rupee Convertibility

The rupee's external value was regulated by the Reserve Bank of India till 1992. Unlike in the developed countries where, where by and large, the market forces dictate the exchange rate of the currency, the rupee was artificially valued by the RBI because the country did not have a policy that is pro-exports or pro-FDI. The policy changed irreversibly sine 1991.

As an important part of the economic reforms since 1991, rupee was made convertible since 1992 in phases. Devalution was done by the RBI in 1991 to set the stage for convertibility. The rupee was made partially convertible in 1992, under which 40 per cent of the foreign exchange earnings were to be traded at the official exchange rate and the remaining 60 per cent could be converted at market determined exchange rates. This was known as partial convertibility of rupee(PCR) and was a part of Liberalised Exchange Rate Management System (LERMS) that was introduced, from March 1992: a dual exchange rate system of 40:60 as explained above. Rupee was made fully convertible on the trade account in 1993 and it was further extended to current account in 1994. Thus, India assumed obligations under Article VIII of the International Monetary Fund, as a result of which, India is committed to adopt current account convertibility. The measures helped in international investors reposing faith in India once again.

India's response to the crisis was essentially tailored to build confidence of the international investing community in India. Foreign institutional investments (investments into financial assets like shares, bonds etc) were permitted and Indian companies were permitted to raise resources in the international capital markets in the form of GDRs. Norms for foreign direct investments were liberalised and multinational companies were wooed by Central/state governments to invest in white goods (consumer durables),infrastructure and other projects. The dramatic change in the environment led to a surge in capital flows. Foreign investments into India shot up dramatically.

Balance of Payments and Invisibles

Invisibles in international trade, is used as a synonym for "service." Invisibles trade is trade in services. Visible, in referring to international trade, is used as a synonym for "goods." "Visibles trade" is trade in goods.

Invisibles are in three parts

- Services
- Transfers and
- Income.

Services include transportation, financial services, travel, telecommunications, computer services and professional services. India's export of services increased to well over $110 billion (2012)

Transfers include remittances from Indians working abroad.

Income receipts are the income earned (as profits, interest and dividends) from the ownership of overseas assets by Indian companies, government and individuals

The net inflow on invisible account has continued to be a major support to the balance of payments. Invisible receipts have shown robust growth, increase being spurred by increased private transfer receipts (remittances by Indian living and working abroad).Tourism receipts have been on the rise. Software exports continue to show exceptional growth rates.

Remittances

India became the largest remittances receiving country at $72 billion in 2015 followed by China at $64 billion. Kerala, Gujarat, Maharashtra, and Punjab are the maximum inward-remittance generating states, according to the RBI. The largest remittances came from the UAE and USA.

In recent months, the rupee has weakened considerably vis-à-vis the dollar, and a surge in remittances is expected as non-resident Indians take advantage of cheaper goods, services and assets in India, says the WB report. Indian Diaspora which is one of the most prosperous in the world is sending money home. Controls are lifted and so there are greater inflows. The government has progressively reduced the red tape. Interest rates are high. RBI increased the amount that can be remitted home.

Convertibility has four dimensions:

- Freedom to convert
- Convert at market rate and

- Removal of restrictions on convertibility on current and capital account. That is, liberalization of flows. It means convertibility for more purposes (like FDI in retail); higher or no caps on existing convertibility regime (49% FDI in insurance etc); more of automatic than approval route; and Indians being allowed greater freedom to take their money abroad.
- Liberalization of outflows from India

The fuller the convertibility, the more the above four items are relaxed.

Current Account Convertibility: It refers to freedom to convert domestic currency into foreign currency and vice versa for the following purposes:

1. exports and imports
2. payments due as interest on loans etc
3. remittances
4. travel
5. education etc

Capital Account: It covers investment and borrowings. For example, foreign investment in India; how much Indian companies can borrow. Similarly, Indians to open bank accounts in foreign countries; invest abroad; hold assets abroad etc.

Capital Account Convertibility

Full convertibility means freedom to convert rupee into foreign currency and vice versa for both current and capital account purposes with least restrictions. That means, in the capital account, there should be 100% FDI and FII allowed across all sectors, more or less (except security related areas). Similarly, there should be very liberal regime for outflows- that is, Indians can invest abroad and borrow from abroad. There should be no controls on current account transactions either.

Full convertibility was the goal in India since the reforms began. We have a large measure of capital account convertibility for foreigners and NRIs for investing in India and taking out profits relating to FDI, portfolio investment and NRI bank deposits in India. For Indian residents and corporates, some limits still exist on how much they can invest abroad. Indian companies also need RBI permission to borrow funds from abroad for some designated purposes. The controls are being relaxed.

Why do we need fuller capital account convertibility?

Advantages

- we get foreign capital for investment
- FII flows can increase liquidity and also modernize our financial sector
- Creates competition for our domestic players
- All advantages of FDI will be available-technology, investment and trade(TIT) accrue
- There will be macro economic discipline
- Indians have a wider range of choice for investment and borrowing.

Fears are

- As the global financial crisis shows, adoption of fuller convertibility should be calibrated or it can be quite destabilizing

- Domestic interests in retail are hurt as it can create unemployment
- Rupee still not being a hard currency, can be subject to volatility with serious effects
- FDI hike in defence also needs to be discussed well before being adopted

Prerequisites for fuller convertibility

- Fiscal deficit should be minimal
- Forex reserves should be adequate
- NPAs of banks should be minimal
- Inflation and interest rates should be moderate

Unless these conditions are met, great steps towards fuller convertibility should be kept on hold.

Benefits of fuller convertibility:
First, India needs huge resources, especially to upgrade its infrastructure. Domestic savings alone are not enough. More foreign funds would come in only if they are sure of free entry and exit.

Second, Indian businesses (especially, the established companies) would be able to access cheaper foreign funds that would improve their international cost competitiveness.

Third, unhindered access to foreign funds would facilitate Indian companies taking over firms abroad and developing more Indian MNCs in the process. For example, Tatas acquiring Jaguar , the international steel major.

Fourth, Indian banks would be able to borrow foreign funds at lower rates which would, in turn, enable them to lend at a lesser rate to Indian small and medium enterprises which may not otherwise be able to borrow directly from the international capital market.

Fifthly, it exerts macro-economic discipline.

Sixthly, outflows are necessary to balance the inflows or the problem of appreciation will plague the economy.

Finally, ordinary Indian investors would be able to further diversify their asset portfolios. Fears relate to Dutch disease. Netherlands experienced Dutch disease as a result of its discovery of oil and related fuels in 1960s. The foreign exchange inflows led to the Guilder appreciating so much that the imports shot up and the competitiveness of Dutch industry was affected adversely. Exports suffered and imports increased due to appreciation. Deindustrialization is the result. The Dutch disease is something similar to what the emerging market economies have experienced due to capital inflows, particularly of the portfolio variety.

Tarapore Committee on CAC

Tarapore Committee on CAC that was set up in 1997 and gave a road map for introduction of capital account convertibility. The objective of the committee was to study economies that had implemented capital account convertibility and understand the prerequisites for it. They had to make recommendations on the measures to be taken and the time frame to achieve full capital account convertibility.

The report noted that India had adopted current account convertibility in August 1994, in accordance to Article VIII of the Articles of Agreement of the International Monetary Fund (IMF). It also noted that capital account convertibility already existed for foreign investors, both direct and portfolio, non-resident depositors and Indian corporates which take external commercial borrowings (ECB). The report said that implementing capital account convertibility would increase capital inflows and bring in all the other advantages cited above. The report said that the time was appropriate for India to take some steps towards but it should be done only when the prerequisites are met otherwise the CAC is a double edged sword. The report said that the move should be made in three phase: Phase I (1997–98), Phase II (1998–99) and Phase III (1999-2000). The transition from one phase to the next should be made, only if certain preconditions are met. The preconditions were reduction of fiscal deficit, keeping the inflation in a 3-5% range and reforming the financial sector, including reduction of non-performing assets.

But it could not be implemented as East Asian currency crisis struck in 1997.

Capital Account Convertibility Relaxations So Far

Capital account transactions continue to be regulated under the FEMA which is a highly liberalized version of the earlier FERA.

Foreign direct investment, barring a few strategic industries is put on automatic route, with most of the sectors permitted to have ever increasing foreign equity participation.

- The foreign portfolio investment by FIIs is allowed liberally.
- The external commercial borrowings (ECB) no longer require the RBI or Ministry approval up to a value.
- Inflows are liberalized far more than outflows for obvious reasons of security. The relaxation on outflows to balance the inflows have been significantly undertaken.
- Overseas investment limit (total financial commitments) for Indian companies enhanced.
- Aggregate ceiling on overseas investment by mutual funds enhanced.
- Prepayment limit of external commercial borrowings (ECBs) without prior Reserve Bank approval increased.
- an *Indian* citizen *can invest* up to *$2,50,000* per *year* in foreign markets (2016)

Tarapore II On Fuller Rupee Convertibility 2006

Tarapore Committee on Fuller Convertibility that presented its report in 2006 recommended that India should make the rupee more freely convertible over the next five years to realize the country's "maximum" economic potential. Tarapore committee said that in view of the huge investment needs of the country and that domestic savings alone will not be adequate to meet this aim, inflows of foreign capital become imperative. The shift toward fuller convertibility should be phased over three phases starting in 2006-07. A "comprehensive review" should be undertaken in 2011 to chart the future path.But, before making the rupee more freely tradeable, India must "improve regulatory and supervisory standards across the banking system" and get its financial house in order, including taming its worsening deficit, said the committee.

The report sought a ban on participatory notes as a mode of investment in Indian equities and easing the direct investment routes for foreigners. It suggested that foreign individuals investors should be brought at par with non-resident Indian investors. The committee recommended the restrictions on overseas borrowings by Indian firms and banks be eased. It said that the limit on outbound remittances by Indian citizens should be increased. It also recommended that the fiscal deficit be brought under control otherwise a large deficit will make India's economy vulnerable to shocks. It proposed the formation of a monetary policy committee (MPC) which has since been set up and operating (2017).

(**Participatory Notes (P-Notes)** are instruments issued by registered foreign institutional investors (FII) to overseas investors, who wish to invest in the Indian stock markets without registering themselves with the market regulator, the Securities and Exchange Board of India-SEBI. They prefer to buy PNs for a variety of reasons and not directly invest in India.Investing through P-Notes is popular amongst foreign institutional investors. Bu India's risks can be high if PNs invest heavily as they are very volatile.)

Internationalization of Rupee

The recent decision by the International Monetary Fund to include the Chinese renminbi in the Special Drawing Rights basket ; the issuance by International Finance Corporation (IFC) of the World Bank Group of rupee-denominated offshore masala bonds; and announcements by the Reserve Bank of India (RBI) allowing Indian companies to issue masala bonds started debate about 'internationalization' the rupee.

A currency is said to be internationalized when other countries` banks and firms and citizens hold its currency for financial security. It is associated with another feature: international currency markets trade actively in such a currency. It is accepted for international trade transactions. If rupee is internationalized, we can pay for our imports in rupees. Our firms can raise dollars in international markets and repay in rupees. Further, Rupee will be an international currency if non-residents are willing and able to trade in it and invest in rupee-denominated assets. For example, a Russian importer must be able to pay for her imports from South Africa in rupees. Similarly, a UK resident must be able to invest her savings in rupee denominated bonds or shares. In these cases, non-residents take risks in the rupee as a currency.

These are the core features of an international currency. US dollar, Euro, Yen, Pound, and recently renminbi are some of the dominant international currencies.

To be an international currency is dependent on three prerequisites. First, the issuing country must have sufficient scale: there must be so much currency available for non-residents to hold it in terms of volume of international transactions. It is linked to macroeconomic fundamentals like strength of the economy, its exports, its resilience etc. Second, the value of the currency must be stable over time. Stability has multiple aspects: macroeconomic, financial and political. Third, the currency must be liquid. A currency is liquid if significant quantities of assets can be bought and sold in the currency, without noticeably affecting its price. This requires depth in financial markets, a large stock of domestic currency-denominated bonds .Scale, stability and liquidity can be achieved through strong economic fundamentals and once these are achieved, the rupee will come to be accepted as an international currency.

Internationalization of Rupee will facilitate greater degree of integration of Indian economy with rest of the world in terms of foreign trade and international capital flows. Key benefits of internationalization of Rupee include savings on foreign exchange transactions for Indian residents- we can pay in rupee for external transactions and need not route them through dollars etc. Reduced foreign exchange exposure for Indian corporates, reduction in dependence on foreign exchange reserves for balance of payment stability etc are other benefits.

One of the important drivers for internationalization of a currency is the country's share in global trade. India's percentage share in the global trade is still on the lower side and it limits the pricing ability of domestic businesses in Indian Rupee. Moreover, the share of Indian Rupee in the Global foreign exchange market turnover at present is also very low. Internationalization of Indian currency would also require full capital account convertibility. As a policy, we have followed a gradual and cautious approach in opening up the capital account. The capital account is being progressively liberalized in accordance with the evolving macro-economic conditions and requirements of the Indian industries, individuals and financial sectors. Government has been taking measures to promote the internationalization of the Indian Rupee. Recently, a framework was put in place for issuance of Rupee denominated masala bonds overseas by Indian corporate.

Capital Account Liberalization

Foreign Direct Investment (FDI) in India is subject to certain Rules and Regulations and is subject to predefined limits ('Limits') in various sectors which range from 20% to 100%. There are also some sectors in which FDI is prohibited. The FDI Limits are reviewed by the Government from time to time and as and when the need is felt and FDI is allowed in new sectors where the limits of investment in the existing sectors are modified accordingly. In order to revise the FDI Limits to attract more foreign investment in India, the Union Government constituted a committee named, Arvind Mayaram Committee. In 2013, the Government approved the recommendations given by the Arvind Mayaram Committee to increase FDI limits in 12 sectors.

Current Account Deficit

The current account of the balance of payments is the sum of the balance of trade (exports minus imports of goods and services), net factor income (such as interest and dividends) and net transfer payments (such as foreign aid). Both government and private payments are included in the calculation. The balance of trade is typically the most important part of the current account. This means that changes in the patterns of trade are key drivers of the current account.

CAD is said to be good upto a limit as the country uses foreign savings which are imports for its development. However, two points must be made to qualify the same. One, it should be financed from dependable inflows like FDI. Two, it should be within limits. Foreign investment inflows were encouraged into the country to finance the current account deficit (CAD). The steps include liberalizing long-term external commercial borrowings (ECBs), asking state-run companies to raise funds from overseas markets etc. The government also talked to sovereign wealth funds and pension funds to get them to invest in India. Promoting exports and measures to reduce imports, especially non-essential ones were taken up.

Deficit on the current account means a net outflow of foreign currency and depletion of forex reserves. In India's case, this means a dollar outgo.Therefore, a country with a current account deficit has to attract capital flows, which could be in the form of FDI/NRI deposits/FII etc to meet the shortfall. But when capital flows are insufficient to meet the deficit, the country's currency starts to depreciate as its capacity to defend its currency weakens. It has no forex to meet it debt servicing obligations. It runs into a sovereign debt crisis thus. This is why a current account deficit in excess of 2.5% of GDP is seen as worrisome in case of India. To act against CAD, India needs to promote exports and slow down consumption imports such as fuel and gold. Reduction of subsidies will also reduce the demand for imported fuel and thus balance trade.

Exchange Rate

Exchange rate is the price of one currency in terms of another currency. For example, approximately 66 India rupees are exchanged for 1 US dollar in 2017. That is the exchange rate. 25 years back it was 20 rupees. But that was artificially fixed by the RBI for the reasons stated above. Since the rupee exchange rate was deregulated- left to the market forces largely- rupee lost its value and came down to almost close to 70 rupees in late 2013 and since then recovered. The exchange rate depends upon many factors:

- Growth rate of the economy
- Future potential
- Foreign trade profile which includes import dependency
- Inflation
- Forex reserves with RBI
- Interest rates in the country and global majors like US
- Monetary policy of countries like USA
- International commodity prices
- External debt levels, particularly the short term commercial debt level
- The extent of convertibility of the currency
- Twin deficits – fiscal and external current account
- Political stability

Rupee is fully floated. RBI buys and sells foreign currency only to facilitate normal operations for foreign trade, debt servicing etc. That is, rupee exchange rate is not" managed" by the RBI. It is not even semi-managed (dirty float). RBI's significant marked forex market intervention is only when there is manipulation of forex market that can create instability internally and externally. The reason for \$400 b is built up as the foreign currency reserve war chest is primarily for this reason.

Currency Mechanisms

There are many ways a currency's exchange rate is arrived at. Some are:

1. In floating rate , the forces of demand and supply determine the valuation and the role of monetary authority is nil or negligible except in indirect terms like buying and selling currency in the market, changes it makes in the interest rates , cash reserves ratio etc .

2. In dirty float the exchange rate is largely market determined but the central bank manages the rate in a specific band that suits certain national goals like export promotion etc. Management of the currency valuation is within a band called the target zone and it is declared by the central bank. The objective here is to make exchange rate conducive for certain macro economic goals like export promotion and balancing it with import liberalization; remittances etc. It is also called managed float.

3. In the fixed exchange rate, the Central Bank artificially and arbitrarily fixes the exchange rate which may not have any relation to market forces. India had the system till 1992 before trade account convertibility was introduced. India had the system as it did not need any FDI or exports.

4. In the pegged system the currency is pegged to the international hard currency like dollar so as to signal the commitment of the central bank to stability. Its movements may or may not be determined by the hard currency because the valuations that suit the local currency are independent of the hard currency. It is essentially meant for imparting stability and

credibility to the domestic currency in its exchange rate so as to invite investors. The stability, however, depends on the ability of the country to manage the rate that is necessary for its exports and gain other benefits. For that, the Central bank should have sufficient forex reserves to intervene whenever necessary. Otherwise, there will be speculative attacks and currency meltdowns. China is an example of currency peg. Crawling peg means, the Government accepts that the currency will crawl up or down gradually by a certain annual rate.

2013 And The Exchange Rate Of Rupee: Why Did The Rupee Slide To Historic Lows Of Nearly 69 In 2013

Rupee fell its lowest ever against the dollar culminating in 2013 - at little less than Rs.69 for which the external and internal reason are responsible

- Eurozone crisis
- Fed taper and rate hike
- Flight to safety
- Dollar is relatively strong as the US economy came out of recession and growth resurfaced
- Risk aversion for the foreign investor
- GAAR/retro taxation laws
- CAD widening
- Weakening capital inflows: The capital account (the net flow of funds through investments and borrowings) surplus has been used to finance the current account deficit for many years. Capital inflows have reduced due to the improving economic situation in the US and other developed countries. Investors are exiting developing markets in expectation of the US Federal Reserve increasing the interest rates, impacting the currencies of emerging markets, like India, Brazil, Russia, Indonesia, Turkey and South Africa.
- Inflation: part of the depreciation is attributable to the adjustment of the rupee exchange rate to the inflation differential, i.e. India's relatively high rate of inflation versus other economies.

Steps taken by the RBI and the government of India to stabilise the currency markets:

Issue	Details
Capital Outflow	The RBI reduced the limit for outbound investment and remittances from India.
Encouraging Capital Inflows	RBI has removed administrative restrictions on investment schemes offered by banks to non-resident Indians, and removed ceiling on interest rates on deposit accounts held by NRIs.The government liberalised the FDI limits for 12 sectors, including oil and gas.
Limiting Imports and encouraging exports	The Finance Ministry increased the customs duty on importing precious metals including gold and platinum.20% of every lot of import of gold must be exclusively made available for the purpose of export of gold-related items
Oil Import Needs	RBI decided to provide dollar liquidity to three public sector oil marketing companies (IOC, HPCL and BPCL) to help them meet their entire daily dollar requirements. Government also considered increasing

	its import of crude oil from Iran, and pay for it directly in Indian rupees.
Trade Deficit	Ministry of Commerce explored the possibility of using local currency for trade with major trading partners.RBI allowed exporters and importers more flexibility in management of their forward currency contracts.
Curbing Speculative in currency	RBI increased the short-term emergency borrowing rates for banks. The daily holding requirements under the Cash Reserve Ratio for banks have been modified. MSF was increased to curb borrowing for speculation
International Cooperation	Government increased its currency swap limit with Japan from USD15 billion to USD50 billion. The BRICS nations also agreed on a USD100 billion foreign currency reserve pool as part of their plan to create a BRICS -CRA

As is evident, some were related to capital account; some others were long term and confidence boosting measures; few are related to immediate relief.From the above sub topic where the reasons and remedies were given, it is clear as to how the currency moves and what policy levers are available to ensure order. The reason for giving in such detail the case of rupee in 2013 is it is a good case study.

Since then rupee recovered and fell again in 2016 November to close to Rs.69 levels.

What is the Real Value of the Rupee?

Since 1991 when dollar fetched 16 rupees, rupee has depreciated to Rs. 65 per dollar by 2017 October. Erosion is caused by the fact that unlike the arbitrary value fixed till 1991, the rupee is finding its market value according to demand and supply in the market. The factors that influence the value are:

- Demand and supply
- Net Capital flows
- Performance of economy and its prospects
- Forex reserves with the RBI
- Interest rates
- Short term debt and the Current Account Deficit(CAD) or CAS
- International prices of the commodities on whom the nation depends. For example, the crude prices in the international markets influence exchange rate of rupee as India depends for more than 80% of its requirements on imports
- speculators
- Political stability – current government has overwhelming majority in the Lok Sabha and gives an edge

The prevailing official exchange rate is called the nominal effective exchange rate (NEER) Adjustment –upward or downward according to inflation shows real effective exchange rate (REER). REER is an inflation adjusted exchange rate – the differential between the inflation in India and India's trading partners is factored to arrive at the REER. NEER always tends towards REER even though there may be a time lag to suit the macro-requirements of the economy.

Forex Reserves

RBI holds foreign exchange reserves which are made up of

- foreign currency held in US Dollars, Euro, British Pound , Japanese Yen etc
- foreign bank deposits
- foreign government securities
- gold reserves
- Special Drawing Rights of IMF and International Monetary Fund reserve positions

Reasons For Accumulation of Forex

Today (2017) RBI has $400b of reserves. It is acquired by the RBI for the following reasons

- To gain external account security
- To defend the rupee when needed
- To import essentials for economic and social security
- To enable the country to globalise further
- To deter speculators
- To enjoy favourable rating by sovereign credit rating agencies which in turn will confer advantages like borrowing cheap from offshore currency market etc.

The foreign currency assets (FCAs), a major component of the overall reserves, were at $375 billion in September when RBI had $400 billion forex reserves for the first time.

Expressed in US dollar terms, FCAs include the effect of appreciation or depreciation of non-US dollar currencies, such as the euro, the pound and the yen held in the reserves.

Gold reserves were $21 billion.

The special drawing rights with the International Monetary Fund (IMF) were $1.5 billion.

The country's reserve position with the IMF was $2.3 billion.

These are reserves and not resources and can not be used for infrastructure etc as the investors want to see the country hold enough of these reserves to give them confidence to come and leave without uncertainties.

Adequacy or Otherwise of The Forex Reserves

Whether it is adequate or not is determined by the composition of our flows and external debt. NRI deposits and FII investment (hot money) are vulnerable. Global crude prices are also a factor in estimating the quantum of forex that is necessary. Drought and resulting food position is one more. Short term debt is another input. With all these factors, including the import cover required, we have to decide the extent of forex necessary.

RBI is diversifying the reserves into SDR and gold since 2008 and the US-centered global recession.

Problems of Plenty With Large Forex Reserves

But there are problems with huge forex reserves as to

- Cost of acquisition is high

- Sterilization costs are high, that is, when rupees are printed to buy dollars, the rupees that put into market have to be absorbed by floating government securities carrying significant interest cost through MSBs(discussed in the Monetary Policy Chapter)
- Market risks associated with their deployment in US securities are evident since 2008
- Returns on such deployment is also miniscule

RBI is diversifying the reserves into SDR and gold since 2008 and the US-centered global recession.

China, Japan, Switzerland, Saudi Arabia, Taiwan, Russia, Hong Kong and India are the top eight countries in terms of forex reserves- in the descending order.

Strong Rupee 2017: Causes And Effects

Indian rupee has turned out to be one of the best-performing currencies in the world with a gain of well over 6% against the U.S. dollar by August 2017. The rupee has been appreciating because of strong capital inflows. These include portfolio inflows into equities and, more importantly, debt markets. They also include higher levels of foreign direct investment and instruments such as masala bonds. These are driven partly by global liquidity and partly by the improving fundamentals of the Indian economy. The Reserve Bank of India's (RBI) relatively hawkish stance on the policy rate has attracted funds searching for yield.According to the Reserve Bank of India, foreign portfolio investors invested $15.2 billion in India's equity and debt markets this year until the end of July. In addition, foreign direct investment in April-May doubled compared to last year. Oil prices remaining stable at around the $50 mark too has helped as it helps reduce forex outgo on oil imports. This is reflected in the improved current account deficit, which stood at 0.7% of GDP in 2016-17 compared to almost 4.8% in 2012-13.

Foreign exchange reserves are at a record level of $393 billion.

However, strong rupee can cause concerns if our object is to stimulate investment, create employment and foster growth, it is a cause for serious concern.

The exchange rate is a determinant of the price competitiveness of exports in world markets and the price competitiveness of imports in the domestic market. Similarly, it exercises an important influence on the profitability of domestic firms that produce goods which are exported, or produce goods which compete with imports. The relative profitability of domestic firms is particularly important in a large economy such as India, because most exports are goods that can be sold either in the world market, or in the domestic market, while most imports are goods that can be bought either from abroad or at home.

It is possible that any currency is overvalued or undervalued. Overvaluation of the rupee means that its price in terms of foreign currencies is too high, compared to what it would be with a more appropriate exchange rate. This makes our exports expensive in foreign markets and our imports cheap in the home market. Undervaluation of the rupee means the opposite. Its price in terms of foreign currencies is too low, so that it discriminates against imports and in favour of exports.

In 2017, almost every currency appreciated against the dollar, but the rupee rose the most (along with the Korean won).

India's export performance in the past three years has seen setbacks. India's share in world exports, around 1.65%, was maintained but not increased. The slow growth in world trade does impose a demand constraint on total exports from developing countries taken together. But China, Korea and even Bangladesh, managed to increase their shares in world exports. Thus, it would be misleading to blame the world economy for India's dismal export performance. Some part of the explanation lies in domestic economic factors such as infrastructure or quality but these have been problems for a long time. The exchange rate of the rupee has been the main reason in recent years. Software exports, which have continued to grow—from $98 billion in 2014-15 to $108 billion in 2015-16 and $117 billion in 2016-17—appear to be an exception to the rule, but these would have done far better if the overvalued and appreciating rupee had not dented the profitability of domestic firms.

The essential underlying factor was the exchange rate of the rupee, which also made imports distinctly cheaper than home-produced goods, whether fruits, mobile phones, consumer electronics or household goods. Every consumer in India is familiar with the overwhelming presence of Chinese manufactured goods. The consequent switch in domestic expenditure from home-produced goods to imports did lead to a contraction in demand and jobs which in turn had a dampening impact on jobs and economic growth

High interest rates to sustain portfolio investment led to strong rupee as seen the first paragraph above. These capital inflows drive prices up in stock markets and add to foreign exchange reserves. But this solution can cause considerable collateral damage to the economy.

First, portfolio investment flows have a significant impact on the exchange rate. The appreciating overvalued rupee erodes the price competitiveness of exports and enhances the price competitiveness of imports, which hurts the profitability of domestic firms and is bound to enlarge the trade deficit. At a macro level, this also leads to a contraction in domestic demand so that economic growth is slower than it would have been in the absence of an appreciating rupee.

Interest rates have been kept at high levels, said to combat inflation—at its lowest in years—but substantively to ensure profitability of short-term foreign capital inflows and maintain confidence in international financial markets. As inflation rates have come down sharply while nominal interest rates have not, real interest rates have risen sharply in the past three years. This has tended to crowd out domestic investment in the real sector of the economy, whether agriculture, manufacturing or services. Such dampening of domestic investment also means that economic growth is slower than it would have been in the absence of high interest rates.

It is essential to recognize that the exchange rate is a price which matters for the economy in many spheres. It is far more important than portfolio investment inflows that can be volatile. The overvaluation of the rupee, which makes exports difficult and imports attractive, must be corrected. The time has come to let the rupee depreciate not just in nominal but in real terms. A more appropriate exchange rate would stimulate exports and dampen imports, just as it would help domestic manufacturing firms to be more competitive, both abroad and at home, to "Make in India" and combat the onset of deindustrialization.

The way forward, now, is to drop interest rates, which would also help the exchange rate depreciate. Together, these would stimulate investment and revive exports, which in turn will drive economic growth and employment creation from the demand side. The time is also most opportune as the consumer price annual inflation rate has dropped to 1.5% in June 2017.

Sovereign Wealth Fund

It is a fund of foreign currency that is meant to be invested in global assets. It is set up and managed by the central bank or a special body (special purpose vehicle) of the government. It is commonly seen in countries that have substantial foreign currency assets earned by them from exports or by foreign investors like MNCs. The fund is invested in shares, bonds, property or other areas of potential growth- like energy assets like oil and gas fields, uranium and agricultural fields. It may also be used to acquire foreign companies. The main reason for it s to earn more than making investments in government bonds of foreign central banks. It helps in energy and food security. Some of the countries that use sovereign wealth funds (SWFs) have economies that are rely on one source of income- oil revenues in Norway and the Middle East.

SWFs diversify their incomes and help them with external account security. India has not set up an SWF because our reserves are not adequate for our needs and contingencies. Besides, the forex held by the RBI is not earned through exports or FDI but is essentially borrowed resources. Our external debt is about $475 billion and our forex reserves are $ 400 billion.

Rupee Devaluation/Depreciation and Export Performance and Promotion

It is argued that when a currency depreciates due to market forces of supply and demand or is devalued by the Central bank, exports go up as in price terms as the country's goods and services will be cheaper especially in relation to similar goods and services from competitive countries. In fact, in the case of India, since the beginning of reforms in 1991 one of the reasons for the growth in exports in dollar terms was the depreciation of rupees. With depreciated rupee, FII will also flow in. Remittances will increase. Inessential imports will reduce. More money in rupee terms is realized for the loans in foreign currency that Indian firms take.

However, when rupee loses its value externally, debt servicing becomes costlier. Inflation will rise as imports will become costlier. Government's subsidy bill and fiscal deficit may rise as it will have to make imported goods like petroleum products and food affordable to the general public. At the same time, a cheaper rupee making the imports costly may drive the domestic import – dependent firms to become either import-substituting or cut corners and raise productivity. The result can be innovation and indigenous production.

To boost exports, pricing the external value of the rupee low is not the strategy beyond a point. Sclae, quality, reliability, packaging and so on matter. Price-elasticity of our exports is also to be considered before depreciation is advocated. That is, price may not boost consumption beyond a point. Further, competitive devaluation will harm the economy as elaborated above. Also, import elasticity of Indian exports- about 50% exports like engineering goods, gems and jewellery etc is high and thus depreciation hurts them.

J curve effect is a theory stating that a country's trade deficit will initially worsen after the depreciation of its currency. This is because higher prices on foreign imports will be greater than the reduced volume of imports and the growth in exports initially. When exports become price-competitive and imports are reduced due to high cost, the BOP turns positive.

Rupee Appreciation: Why And What It Does

Normally, currencies appreciate when the economies are doing well. An appreciating currency is the result of a booming economy. Performance of economy brings in FIIs; huge FII inflows into financial asset markets and an increasing reliance on low cost foreign loans (ECB) add to the foreign currency glut, and help power the rupee higher. NRI deposits also explain the appreciation.

The resentment is among exporters while importers, borrowers from abroad and the consumers are gainers. Borrowers gain as they can prepay at reduced cost. Importers are delighted with the rupee's appreciation to the dollar as most imports and external borrowings are denominated in dollars. Borrowings through Masala bond does not make the debtors relieved as the borrowing and repayment both are in rupees and so is the interest.

The Indian consumer is a beneficiary too, as costs of a host of imported goods — from petro products to electronic, electrical and consumer items -- would be cheaper.

The effect on exporters too is not all negative. With increasing global integration an ever-increasing proportion of exports consist of imported raw materials and components. This is particularly true of the diamond, high-end textile and engineering industries that use a high proportion of imported goods in their exports.

The rupee's rise has helped these exporters to rein in their costs and increased their competitiveness in the global market place. However, exporters, in general, have seen their profit margins erode as a result of the rupee's unexpected appreciation.

Appreciation is suggested for the following reasons:

- Helps manage inflation
- Puts pressure on export sector to scale up the value chain and export niche products
- Forces the industry to cut costs and be competitive on quality terms.

Currency Manipulation

A country depends on the price of its currency in overseas markets- the exchange rate, for a variety of its macroeconomic objectives. Some want it weak so as to export more etc and some want it balanced if they also have a need to import substantially. China is in the former category and India in the latter. China keeps its exchange rate weak by having the yuan (renminbi) fixed (pegged) to a basket of currecnies since 2015 and till then to the US dollar. By artificially keeping it devalued, it has posed a threat to other countries that also want to export but can not weaken the currency for the purpose. For example, India. When a country dmages its competitors through a weak currency, it is called a "beggar they neighbor policy." The decline of India's exports and the huge trade deficit that India runs with China (about $50 billion in 2017) may be cited as an example of such policies. It is the result of currency manipulation. The United States accused China of keeping the yuan, artificially low by massively accumulating foreign reserves, in order to give Chinese exports an advantage over competitors.

US wants to have Chinese yuan to move freely in foreign exchange markets and find its value.

A weak currency cheapens the price of a country's exports, making them more attractive to international buyers by undercutting competitors.

China's economy is primarily export-driven and international competition could be killed only by currency manipulation. Other countries can not join this currency war as they do not have such large scale manufacturing capacity nor the population to supply cheap labour skills nor the authoritarian government that can take decisions against popular will, for examples environmentally incompatible projects. Other countries lose by way of growth, jobs, fiscal receipts, competitiveness, welfare and so on as they lose their global and domestic markets.

Certain professional economists and policy makers are apprehensive that the devaluation driven growth could overheat the economy and hardland the country into a rapid slowdown hindering the world recovery.

Other countries also reacted in a similar manner. US started quantitative easing one of whose objectives was to oversupply dollar to weaken it to check imports and boost exports. President's Trump's "America First" is also a response to it. Protectionsim is spreading across the world as a result.

Currency War

In 2010 by Brazil's Finance Minister Guido Mantega coined the term while describing the competition between the United States and China to cheapen their currency- US having joined the war started by China by introducing the QE .As detailed in the note on currency manipulation, some nations deliberately weaken their currencies to gain in terms of exports etc. When the other nations join the race of devaluation, it is called a currency war. Currency cheapening is made possible by the central bank following an expansionary monetary policy to lower the value of its money. The central bank buys foreign currency and keeps a war chest of it like China with which it ensures that its domestic currency has a low valuation vis a vis other currencies to aid exports. That helps businesses and boosts economic growth.

Other countries may not be able to join as their currencies are not fixed but are floated; imports will be costlier; inflation will shoot up; growth will suffer; jobs will be lost and financial sector may be destabilized as banks may accumulate non-performing assets(NPA).

A central bank has many tools to lower the exchange rate: increase the money supply by expanding credit. It can lower interest rates. It can also add credit to a money supply through open market operations an extreme form of which is Quantitative Easing.

Governments can also aid in currency losing its value through expansionary fiscal policy: by spending more or cutting taxes. But its effects can be severely destabilizing and anti-growth unless the entire ecosystem is in place to take relative advantage of the weak currency from the global market.

Dollarization

When a country uses the currency of another country along with its own currency or by official substitution, it is called Dollarization. Currency substitution can be in complete replacement of domestic currency or along with it. Nepal and Bhutan people hold Indian rupee along with their own official currencies Nepalese rupee and Bhutanese Ngultrum respectively for financial security and for trade across the border. Similarly, residents of Zimbabwe hold British Pound or South African Rand along with Zimbabwe dollar.

Currency Board

In recent times, currency board came into international headlines in 2001-02when Argentina adopted it to flush out its extra currency that was losing its value due to fiscal profligacy. When foreign investors were leaving the country ad the exchange rate of peso was plunging, the decision was taken to adopt the currency board mechanism. It set a fixed exchange rate to US dollar. It ruled that the country should print so many pesos as it had dollars- the ratio between the two being fixed at a certain level. Thus the country retrieved its financial stabilityand FDI and FII resumed. Thus, like a central bank, a currency board is a country's monetary authority that issues notes and coins. That is its only function and is performed in line with the fixed currency exchange rate. In other words, CB, unlike a central bank, is not the lender of last resort, nor banker to government nor is it the bank's bank.

Global Reserve Currency

There are some national currencies that are held by central banks around the world as a part of their foreign exchange reserves as they are accepted in the international markets for all types of transactions like payment for imports, debt servicing etc. For example, US dollar, Japanese yen, Euro etc. It is held not only by the central banks but also firms and individuals as it is considered a hard currency or safe-haven currency. U.S. dollar is the most preferred and makes up 64 percent of all known central bank foreign exchange reserve. More than 85 percent of forex trading involves the U.S. dollar. 39 percent of the world's debt is issued in dollars. The reason for the dollar gaining the predominant position was that in 1944 the Bretton Woods Agreement assigned a unique status to the US dollar - it took the world off the gold standard and made the US dollar the basis for other counties printing their currencies. That is, US dollar ws made the global reserve currency. They could hold US dollars instead of gold. When they wanted to convert the dollars into gold, US would exchange. US dollar was printed on the basis of gold holding. It meant that all countries held dollar; dollar dominated the world; all others used the dollar to buy US goods; dollar was in huge demand; others were grossly undervalued. But they felt inflationary pressures. It worked well when the US held sway over the world- till the end of sixties. When Japan and Germany and others were coming up, they defied it and wanted their own currencies also to emerge as global reserve currencies. When they wanted gold for dollars, Richard Nixon changed the system and discontinued with the gold standard for the USA. That is, even the US dollar was not tied to the gold reserves. In other words, since 1971, the amount of currency that US printed is not linked to gold. Each country followed its own standard (gold standard is followed when a country promises the holders of its currency to redeem their currencies for their value in gold upon demand). The next most popular reserve currency is the euro. About 20% (2017) of known central bank foreign currency reserves were in euros.Most of the other currencies are only used inside their own countries. Whether a currency becomes a reserve currency or not does not depend on the size of the currency. Swiss economy is worth only $660 billion (2017) but has been one for many years. China was more than $5 trillion 10 years back and was not.

(Bretton Woods Agreement 1944 was decided upon at the United Nations Monetary and Financial Conference held in Bretton Woods, New Hampshire, in 1944. The creation of the International Monetary Fund (IMF) and World Bank Group and valuation of gold and foreign exchange rates was the contribution of 44 countries that met to create a new international monetary system. The main goals of the meeting of the 730 delegates were to ensure a foreign exchange rate system, prevent competitive devaluations and promote economic growth.)

The reasons for any national currency to emerge as a global currency are that it should have strength in the form of a large economy; it should have performed well for decades; it should be stable which the central bank should be able to ensure; there should be adequate amount of the currency in global markets to convert it into other currencies and vice versa. If a currency satisfies these features, it can be accepted across the world.

If a currency is held by others, it has a great advantage: other countries will hold it. They do not hold it as currency as it does not fetch returns. They buy government bonds with it. For example, US dollar is held, it is held as US government security which fetches some returns. It means, world will give USA the dollars that it holds and US will exchange it for US government securities. These securities are thus sold for an interest rate that is negligible-1% or so. It means, the rate at which US raises loans is very cheap. That reflects on the global trust in these bonds. US spends the money for its own growth and consumption.

Hard And Soft Currency

In line with the explanation of global reserve currency above, hard currency is any globally traded currency that is liquid(adequate supply) and stable (does not fluctuate much). Such currency is in global demand as a store of value. Long-term stability, fiscal and economic policies of the country, strength of the economy etc are the relevant factors behind the emergence as a hard currency.It becomes a safe haven currency.Soft currency exhibits opposite features.

Flight of Capital

When financial assets or money rapidly leave a country due to the understanding that the economy is not doing well; or is imposing controls that will mean losses; or is likely to makes policies that are inimical for investments, government facing sovereign debt crisis defaulting on its debt etc. Any of these events will cause loss of confidence in the economy. When flight of capital takes place, exchange rate drops thus causing even greater flight and harm to the economy. The country's currency will lose value and the purchasing power. High inflation will result .The problem is worse if the country is import dependent. In such a situation- either before after the capital flight, the country will resort to capital controls.

Capital Controls

In 2017, China imposed regulations targeting "irrational" overseas investments in the property, entertainment and sports sectors. In 2015, Greece imposed capital controls on foreign currency outflows. In India, in August 2013, the Reserve Bank of India (RBI) imposed partial capital restrictions on companies and individuals to stabilise the rapidly weakening rupee. Overseas direct investment by Indian companies was cut by three-fourths, making it more difficult for local corporate entities to buy overseas assets. RBI also lowered overseas remittances by locals to \$75,000 a year from \$200,000, and prohibited investments in overseas property. These measures were rolled back after the rupee stabilized.

These measures constitute 'capital controls': Any measure taken by a government, central bank or other regulatory body to limit the flow of foreign capital in and out of the domestic economy. These controls include taxes (Tobin tax), quantitative restrictions etc.

They are not confined to capital account as the above mentioned RBI policies include remittances too which are in the current account. These controls can be economy-wide or specific to either a sector or industry as can be inferred from above.

Capital controls are temporary and are aimed at stabilization. In the long run they limit economic progress and efficiency.

POVERTY: CONCEPTS, DATA, POLICY AND ANALYSIS

Poverty is deprivation of basic needs that determine the quality of life- food, clothing, shelter, safe drinking water etc. It also includes the deprivation of opportunities to health, education, skills, employment etc. Agricultural wage earners, small and marginal farmers and casual workers engaged in non-agricultural activities, constitute the bulk of the rural poor. Small land holdings and their low productivity are the cause of poverty among households dependent on land-based activities for their livelihood. Poor educational base and lack of other vocational skills also perpetuate poverty. Due to the poor physical and social capital base, a large proportion of the people are forced to seek employment in vocations with extremely low levels of productivity and wages.

There are many reasons for poverty which include:

- Colonial destruction of economy
- Uncontrolled population
- Growth is not rapid to eradicate poverty
- Models of growth may be unsuitable for poverty alleviation. For example, capital-intense growth in a labour surplus country like India
- Poverty is a vicious circle preventing investment and development.
- Geographic factors, for example lack of fertile land and access to natural resources.
- Anti-poverty schemes not being effective due to institutional and other inadequacies
- Insurgencies as in the north east of India and naxalism as in the eastern corridor
- Lack of education and skills.
- gender discrimination

Poverty Is A Cognitive Tax

Scientists have demonstrated what we observe around us: Chronic poverty causes health difficulties, educational failure, mental health challenges, and impoverished aspirations. Finances for appropriate provision are not available, and overexposure to stress has negative consequences on physical and emotional development. Poverty causes cognitive depletion and thus is a "cognitive tax" on the poor. Researchers suggest that people who find themselves poor spend an enormous amount of mental energy managing the state of poverty. The constant preoccupation with the difficulty generated as a result of not having appropriate resources narrows down thinking, focusing attention on the concern at hand. This intense and concentrated use of energy reduces a person's "mental bandwidth", preventing them from managing effectively other areas of their lives, because worry is consuming them.

A variety of studies point to a correlation between poverty and counterproductive behavior. The poor use less preventive health care, fail to adhere to drug regimens ,are less likely to keep appointments , are less productive workers , less attentive parents , and worse managers of their finances. These behaviors are troubling in their own right, but they are particularly troubling because they can further deepen poverty. Some explanations of this correlation focus on the environmental conditions of poverty. Predatory lenders in poor areas, for example, may create high-interest-rate borrowing, and unreliable transportation can cause absenteeism. Lower levels of formal education, for example, shows as financial illiteracy.

The condition of poverty imposed, as one study showed, a mental burden similar to losing 13 IQ points, or comparable to the cognitive difference that's been observed between chronic alcoholics and normal adults.

The finding further weakens the theory that poor people, through inherent weakness, are responsible for their own poverty – or that they ought to be able to lift themselves out of it with enough effort. This research suggests that the reality of poverty actually makes it harder to execute fundamental life skills. Being poor means coping with not just a shortfall of money, but also with a concurrent shortfall of cognitive resources. Poverty being the villain, it strengthens the case for welfare state and inclusive growth.

Poverty Concepts

Types of Poverty:

Human Poverty is the lack of essential human capabilities- literacy and nutrition.

Income Poverty is the lack of sufficient income to meet minimum consumption needs.

Extreme Poverty The World Bank defines extreme poverty as living on less than $1.90 a day (2016).

Relative Poverty is the condition in which people lack the minimum amount of income needed in order to maintain the average standard of living in the society in which they live. It is defined in terms of the society in which an individual lives and therefore differs between countries and over time. That is, poverty is relative to the country and its standard of living.

World Bank and relative poverty metrices

WB defined the extreme poverty line first in 1990 at $1 a day which became $1.9 a day presently. In an attempt to be more precise with its classifications, the WB in 2017 November added new standards of poverty for people living in middle- and high-income countries.The new standards are set at $3.20 a day for people in "lower-middle-income" countries, such as Egypt or India; $5.50 a day for "upper-middle-income" countries, such as Jamaica or South Africa; a third standard for high-income countries, like the US, at $21.70 a day.

The United Nations aims to eradicate extreme poverty by 2030 as part of its Sustainable Development Goals. Much of the success is owed to organizations like the World Bank, UNICEF, and the Gates Foundation, which has spent billions over the past decade to alleviate poverty around the world. One of the hallmarks of this success has been the reduction in a group of side effects related to poverty, such as hunger, child mortality, maternal mortality, and widespread declines in the world's deadliest diseases, such as HIV/AIDS and malaria.

Absolute Poverty is defined as "a condition characterized by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. It depends not only on income but also on access to services

Poverty Line

It is the level of income below which one cannot afford to purchase all the resources one requires to live.

Poverty lines are defined as the per capita monetary requirements an individual needs, to afford the purchase of a basic set of goods- food and other goods.

Some definitions include only certain calories of intake and convert it into monetary value. In India monetary requirement to consume 2100 calories in urban areas and 2400 calories in rural areas per day per person was the absolute poverty line but was changed later till the Tendulkar line was adopted in 2010. Other definitions include more goods and services in the basket. The monetary value is determined and indexed to inflation and the line is drawn dynamically.

Headcount Ratio

The incidence of poverty is revealed by this ratio. It shows the percentage of the population whose per capita incomes are below the poverty line, that is, the population that cannot afford to buy a specified basic basket of items.

Poverty Gap (PG)

PG is a measure of the intensity of poverty among the poor: the difference between the mean income among the poor and the poverty line. This indicator measures the magnitude of poverty as well as its intensity- number of poor and how poor they are. The Poverty Gap Index is the combined measurement of incidence of poverty and depth of poverty. PG is also called the Foster-Greer-Thorbecke (FGT) index. It is the gap between the average poverty among the poor and the poverty line.

Misery Index

The misery index was initiated by Chicago Economist Robert Barro in the 1970's. It is the unemployment rate added to the inflation rate. It is assumed that both a higher rate of unemployment and a worsening of inflation cause and intensify the misery. A combination of rising inflation and more people of out of work ("stagflation") implies a deterioration in economic performance and a rise in the misery index.

Planning Commission and Poverty

The Planning Commission as the nodal agency in the Government of India for estimation of poverty has been estimating the number and percentage of poor at national and state levels. Estimates of poverty are made from the large sample survey data on household consumer expenditure conducted by the National Sample Survey Organization (NSSO) of the Ministry of Statistics and Programme Implementation.

NSSO and Poverty Estimates

National Sample Survey Organisation (NSSO) collects household consumer expenditure data every five years on a large sample. Household consumer expenditure surveys are also conducted annually but the sample size is much smaller. Every five years full surveys on 1,20,000 households are carried out. In the intervening period, "thin" samples of around 20,000 households are surveyed. The "thin" samples do not indicate trends fully.

Planning commission initially gave poverty numbers and related data ratios since 1979 based on the Alagh Committee Report of that year. This procedure was subsequently modified by the Lakdawala Committee (1993).The commission appointed an expert group led by Suresh

Tendulkar to suggest a new poverty line for rural areas. It submitted its report in 2009. It used the latest data to construct a new poverty line basket. It moved away from the calorie intake as anchor for poverty estimation and included health and education. Tendulkar committee did not deal with the urban poverty as the line was not controversial at that time.Arjun Sengupta Commission on unorganised enteprises estimated 77% of the population can be categorised poor and vulnerable. The Tendulkar poverty line in 2009-10 was 4,298 per month for a family in urban and 3,364 per month for a family in rural areas.

Rangarajan Committee

A new expert committee under C Rangarajan went into revisiting the methodology for estimation of poverty and identification of the poor after the Tendulkar poverty line was found unsatisfactory in its methodology. The panel looked into the issue of linking poverty estimates with providing benefits under the Centre's social welfare schemes. That is, are entitlements to be given only to the poor? In other words, the committee went into setting standards for poverty definition so that we can face the human challenge of poverty eradication and also assess how far we have done so, so far since Independence. The panel assessed whether poverty can be determined on any criteria other than the consumption basket.

It redefined the poverty line in 2014. According to the the committee, the new poverty line should be Rs 32 in rural areas and Rs 47 in urban areas at 2011-12 prices. The earlier poverty line figure was Rs 27 for rural India and Rs 33 for Urban India. The Rangarajan report added 93.7 million more to the list of the poor assessed as per the Suresh Tendulkar committee formula. The total number of poor has reached 363 million from 269 million in 2011-12. For Rangarajan committee household is poor if it is unable to save. The methods also include certain normative levels of adequate nourishment, clothing, house rent, conveyance, education etc. It also considered average requirements of calories, protein and fats based on ICMR norms differentiated by age and gender. Based on this methodology, Rangarajan committee estimated the number of poor were 19 per cent higher in rural areas and 41 per cent more in urban areas than what was estimated using Tendulkar committee formula.

NC Saxena Committee

The Ministry of Rural Development in 2008 appointed a committee headed by NC Saxena to calculate the rural BPL figures in the states.

Officially, there are two sets of BPL estimates in India, one made by the Planning Commission using NSSO data on household consumption expenditure and the other by the rural development ministry through a state-level BPL house-to-house census. The mismatch between the two, with Planning Commission progressively lowering poverty estimates while the states push higher numbers, has been a source of controversy. The Centre allocates resources for BPL schemes based on the figures of the Planning Commission.The committee chaired by NC Saxena recommended that 50% of India's population be given below-poverty-line cards. Thus, it suggests expansion of the social security net involving fiscal and administrative challenges.

While advocating exclusion of large number of families from the BPL lists, the committee recommended that those families having double the land of the district average of the agricultural land or two wheeler or one running bore well or income tax payers would be deleted from the BPL lists. The panel recommended that some disadvantaged communities be given BPL cards automatically. These include chronically vulnerable groups, such as households with members having tuberculosis, leprosy, disability, mental illnesses or HIV/AIDS and others, designated 'primitive tribe', designated dalit groups, homeless household etc.

The Centre notified 13 new parameters for defining Below Poverty Line (BPL) category of people in the country. It has done away with the earlier definition based on food calories or annual earnings. The revised definition is based on landholding, type of dwelling, clothing, food security, hygiene, capacity for buying commodities, literacy, minimum wages earned by the household, means of livelihood, education of children, debt, migration and priority for assistance. The matter had been stayed by the Supreme Court and has only now been vacated.

Urban Poverty

The Planning Commission had constituted an expert group under S. R. Hashim in 2010 to recommend detailed methodology for identification of BPL families in urban areas in the context of the 12th Five Year Plan. The expert group submitted an interim report recommending that poverty in urban areas be identified through identification of specific vulnerabilities in residential, occupational and social categories.

It said that those who are houseless, live in temporary houses where usage of dwelling space is susceptible to insecurity of tenure and is affected by lack of access to basic services should be considered residentially vulnerable.

Houses with people unemployed for a significant proportion of time or with irregular employment or whose work is subject to unsanitary or hazardous conditions or have no stability of payment for services should be regarded occupationally vulnerable.
Households headed by women or minors or where the elderly are dependent on the head of household or where the level of literacy is low or members are disabled or chronically ill should be considered socially vulnerable, it said.

Pronab Sen Committee

The Ministry of Housing and Urban Poverty Alleviation set up a committee to look into various aspects of Slum statistics /Census and issues regarding conduct of slum census 2011. The committee submitted its report to the Ministry of Housing and Urban Poverty Alleviation in 2010.

The salient finding / recommendations of the committee are: -

- The committee estimated Slum population in the country in 2001 as 75.26 million and the projected slum population in the country for the year 2011 at 93.06 million.
- The committee suggested a different definition for slum than the definition adopted by the census of India 2001 and the states. The committee recommended a normative definition of slum as: "A compact settlement of at least 20 households with a collection of poorly built tenements, mostly of temporary nature, crowed together usually with inadequate sanitary and drinking water facilities in unhygienic conditions."

The committee suggested adoption of the following as slum-like characteristics for the purpose of identification of the slum areas: -

- Predominant roof material: any material other than concrete
- Availability of drinking water source: not with premises of the census house
- Drainage facility: no drainage or open drainage

The committee recommended that a contiguous area with 20-25 house holds having slum like characteristics be counted as slum.

SECC

The Socio Economic and Caste Census 2011 (SECC) was conducted for the 2011 Census of India.GOI approved the Socio Economic and Caste Census 2011 and was conducted in all states and union terriotories of India and the first findings were revealed in 2015. SECC 2011 is also the first paperless census in India conducted on hand-held electronic devices by the government in 640 districts. Therural development ministry, union government has taken a decision to use the SECC data in all its programmes such as MGNREGA, National Food Security Act, and the Deen Dayal Upadhyaya Grameen Kaushalya Yojana. SECC 2011 was the first-ever caste-based census since 1931 Census of India

SECC 2011 has three census components which were conducted by three separate authorities, but under the overall coordination of Ministry of Rural Development in the Government of India:

- Census in Rural Area has been conducted by the Ministry of Rural Development.
- Census in Urban areas is under the administrative jurisdiction of the Ministry of Housing and Urban Poverty Alleviation.
- Caste Census is under the administrative control of Ministry of Home Affairs: Registrar General and Census Commissioner of India.

SECC 2011 data was criticised that caste related data is deliberately withheldTamil Nadu leaders demanded to release the caste-based census data that will help to provide the key to justify the existing 69 per cent quota for backward communities inTamil Nadu. However, the census was welcomed as it reveals how many castes enjoy the benefits and how many don't and to what extent has the welfare spread. Also, it helps better targeting the welfare schemes.

Justice G Rohini Commission

President Ram Nath Kovind appointed a five-member Commission headed by Delhi High Court's former Chief Justice G Rohini to examine the sub-categorisation of Other Backward Classes (OBCs) under Article 340 of the Constitution in October 2017.

This decision has been taken to ensure more backward among the OBC communities to avail the benefits of reservation

It will examine the extent of inequitable distribution of benefits of reservation among the castes or communities included in the broad category of OBCs with reference to such classes included in the Central List.

It will also work out the mechanism, criteria, norms, and parameters in a scientific approach for sub-categorisation within such OBCs and will take up the exercise of identifying the respective castes or communities or sub-castes or synonyms in the Central List of OBCs and classifying them into their respective sub-categories.

The Commission has been asked to submit its report to the President within a period of twelve weeks. On receipt of the report, the Central government will consider ways and means for equitable distribution of the benefits of the reservation in Central government jobs and admission in Central government institutions amongst all strata of OBCs. SECC data will be useful in this context.

Eradication of Poverty

The strategy of the Government includes the following elements

- Socio economic planning
- welfare state. For example, food security Act 2013. Energy security through through schemes like Saubhagya, Ujjwala etc.
- Progressive taxation to garner fiscal resources for spending on poor
- Social safety net like the National Social Assistance Programme (NSAP)
- Open society in which poverty is recognized as a national challenge and earnest efforts are made to tackle it (Amartya Sen)
- Anti-poverty programmes – Pradhan Mantri Awas Yojana, **Deendayal** Antyodaya Yojana (DAY) etc.
- Massive social sector expenditure for skill building
- Decentralization through PRIs and Nagarapalikas for better delivery models

Niti Aayog Task Force on Poverty Elimination

Constituted in 2015 under the Chairmanship of Dr. Arvind Panagariya, Vice Chairman, NITI Aayog, the report of the Task Force primarily focusses on issues of measurement of poverty and strategies to combat poverty. Regarding estimation of poverty, the report could not reach a consensus. With respect to strategies to combat poverty, the Task Force has made recommendations on faster poverty reduction through employment intensive sustained rapid growth and effective implementation of anti-poverty programs.

MDGs and SDGs

MDG 2000

The Millennium Development Goals (MDGs) were the eight international development goals for the year 2015 that had been established following the Millennium Summit of the United Nations in 2000, following the adoption of the United Nations Millennium Declaration. Following are the MDGs:

- To eradicate extreme poverty and hunger
- To achieve universal primary education
- To promote gender equality and empower women
- To reduce child mortality
- To improve maternal health
- To combat HIV/AIDS, malaria, and other diseases
- To ensure environmental sustainability
- To develop a global partnership for development

SDG 2015

The Sustainable Development Goals (SDGs), officially known as Transforming our world: the 2030 Agenda for Sustainable Development is a set of seventeen aspirational "Global Goals" with 169 targets between them. Spearheaded by the United Nations, through a deliberative process involving its 193 Member States, as well as global civil society, the goals inspired by United Nations Secretary-General Ban Ki-moon that "there can be no Plan B, because there is no Planet B" They were adopted at the UN Sustainable Development Summit September 25–27, 2015

Goal 1. End poverty in all its forms everywhere

Goal 2. End hunger, achieve food security and improved nutrition, and promote sustainable agriculture

Goal 3. Ensure healthy lives and promote well-being for all at all ages

Goal 4. Ensure inclusive and equitable quality education and promote life-long learning opportunities for all

Goal 5. Achieve gender equality and empower all women and girls

Goal 6. Ensure availability and sustainable management of water and sanitation for all

Goal 7. Ensure access to affordable, reliable, sustainable, and modern energy for all

Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

Goal 10. Reduce inequality within and among countries

Goal 11. Make cities and human settlements inclusive, safe, resilient and sustainable

Goal 12. Ensure sustainable consumption and production patterns

Goal 13. Take urgent action to combat climate change and its impacts*

Goal 14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development

Goal 15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

Goal 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

Goal 17. Strengthen the means of implementation and revitalize the global partnership for sustainable development.

Similarities and Differences

Outline of the similarities and differences between the Millennium Development Goals (MDGs) launched in 2000, and the Sustainable Development Goals (SDGs) in 2015 when the MDGs expired

- **Zero Goals:** The MDG targets for 2015 were set to get us "half way" to the goal of ending hunger and poverty, with similar proportional goals in other fields. The SDGs are designed to finish the job – to get to a statistical "zero" on hunger, poverty, preventable child deaths and other targets. This approach will call for very different strategies: getting "halfway there" encouraged countries to "do the easiest parts first." Getting to zero requires a real focus on the empowering the poorest and hardest to reach.
- **More Comprehensive Goals:** There were 8 MDGs. There are 17 SDGs

- **Inclusive Goal Setting:** The MDGs were created through a top-down process. The SDGs are being created in one of the most inclusive participatory processes the world has ever seen
- **Distinguishing Hunger and Poverty:** In the MDGs, Hunger and Poverty were joined together in MDG1 – as if solving one would solve the other. So much has been learned about nutrition since that time, and the SDGs treat the issue of poverty separately from Food and Nutrition Security.
- **Funding:** The MDGs were largely envisioned to be funded by aid flows – which did not materialize. The SDGs put sustainable, inclusive economic development at the core of the strategy, and address the ability of countries to address social challenges largely through improving their own revenue generating capabilities.
- **Peace Building:** The inclusion of peace-building in SDGs is critical to the success of ending hunger and poverty — yet was totally ignored in the MDGs.
- **Data Revolution:** The MDGs said nothing about monitoring, evaluation and accountability – the SDGs target by 2020 to "increase significantly the availability of high-quality, timely and reliable data disaggregated by income, gender, age, race, ethnicity, migratory status, disability, geographic location and other characteristics relevant in national contexts."
- **Quality Education:** The MDGs focused on quantity (eg, high enrollment rates) only to see the quality of education decline in many societies. The SDGs represent the first attempt by the world community to focus on the quality of education – of learning – and the role of education in achieving a more humane world: "education for sustainable development and sustainable lifestyles, human rights, gender equality, promotion of a culture of peace and non-violence, global citizenship, and appreciation of cultural diversity and of culture's contribution to sustainable development."

Role of Niti Aayog in SDGs

NITI Aayog has been entrusted with the role to co-ordinate 'Transforming our world: the 2030 Agenda for Sustainable Development' (called as SDGs). The task at hand for NITI Aayog is not merely to periodically collect data on SDGs but to act proactively pursue the goals and targets not only quantitatively but also maintaining high standards of quality. Ministry of Statistics and Programme Implementation (MoSPI) has already undertaken a parallel exercise of interaction with the ministries to evolve indicators reflecting the SDG goals and targets.

To achieve these tasks, the draft mapping of the goals and targets as an initial step on proposed Nodal and other Ministries has been carried out in consultation with MoSPI. Further, as an illustration, the Centrally Sponsored Schemes (CSSs), including the 'core of the core', 'core' and 'optional' Schemes being implemented by the States have been mapped alongwith some of the recent initiatives undertaken by the Central Government. In addition, Ministries are implementing Central Sector Schemes and States are also implementing various State Schemes aligned with one or more SDGs.

Voluntary National Review of Implementation of SDGs in India

As a signatory to the 2030 Agenda for Sustainable Development, India is committed to participate in the international review of progress of Sustainable development Goals (SDGs) on a regular basis. The central platform for international follow-up and review of the 2030 Agenda is the High-Level Political Forum (HLPF), which has started meeting annually since 2016 under the auspices of the UN Economic and Social Council (ECOSOC). In the HLPF, UN member countries are expected to present their Voluntary National Review (VNR) on implementation of SDGs. The VNRs thus serve as a basis for international review of progress of SDGs.

The 2017 HLPF was held in July 2017 at the United Nations, New York. It focused on the theme: 'Eradicating poverty and promoting prosperity in a changing world' and on the SDGs 1 (No Poverty); 2 (Zero Hunger); 3 (Good Health and Well-Being); 5 (Gender Equality); 9 (Industry, Innovation and Infrastructure), 14 (Life Below Water) and 17 (Partnerships for the Goals).

As a part of its role, NITI Aayog has presented the 1 st Voluntary National Review on implementation of SDGs in the country to the 2017 HLPF in July 2017

The report details various measures and programmes being implemented across India towards achieving the core objectives of the 17 ambitious global goals, including poverty eradication, economic growth, ending hunger and achieving food security, gender equality, promoting inclusive and sustainable industrialisation and climate action. The programmes highlighted in the report are the 'Mahatma Gandhi National Rural Employment Guarantee Act', 'Beti Bachao Beti Padhao', 'Sagarmala', 'Clean India' campaign and the Aadhaar Act.

The report said that externally, the country has played a key role in shaping the SDGs and ensuring the balance among its three pillars - economic, social and environmental. Internally, it has launched many programmes to make progress towards these goals. India said it will continue to pursue the implementation of the SDG agenda through close collaboration between the national and sub-national governments as well as active participation of all other relevant stakeholders. It also said that apart from integrating the SDGs into its on-going national and sub-national policies and programmes, India will continue to focus on nurturing partnerships at the regional and global levels," the country's review report said.

It will work towards ensuring a greater flow of finances and technology from developed countries - in alignment with their explicit commitment in the context of the 2030 Agenda - to developing and least developed nations

India's VNR

Government sees **SDG 1** on the most important goal, which needs continued economic growth to be achieved. The key programmes were: PM Jan Dhan Yojana (world's largest financial inclusion programme), National Rural Drinking Water Programme, Swaachh Bharat Mission (Clean India Mission), Housing for All by 2020, and PM's rural roads programme.

SDG 2 on ending hunger, improving nutrition programmes: doubling farmers income by 2022, Integrated Child Development Services, Public Distribution System, and the mid-day meal programme.

SDG 3 on health and wellbeing programmes: National Health Mission, National Vector Borne Disease Programme, and National Programme for Prevention of Non-communicable Diseases.

SDG 5 on gender equality ("the most important SDG as well, in addition to the eradication of poverty"): Save the Girl Child, Educate the Girl Child, Maternity Benefit Programme, Women Transforming India, and Stand Up India.

SDG 9 on Infrastructure and Innovation: Rural Electrification scheme (reached 99% of Indian homes already), Make in India, (building roads and infrastructure, FDI), Attal Innovation Mission.

SDG 14 on life under the water: Mangroves for the Future, National Oil Spill Contingency Plan 2015, National Policy on Marine Fisheries 2017, and Sagarmala (port-led development).

SDG 17 on global partnership for sustainable development: Direct tax reform, GST, public private partnerships, south-south cooperation, Aadhar, direct benefits transfer, and having 2% of company profits being spent on social programmes.

India expects developed countries to help developing ones to reach these goals, especially in the area of curbing illicit financial flows.

Universal Basic Income (UBI)

A universal basic income is a form of social security in which all citizens or residents of a country receive a regular, unconditional sum of money, from government, It is being debated across the world as automation threatens jobs; growth being low needs to be stimulated with basic income and as a form social security. There are advantages:

Transparency: Basic income is a much simpler and more transparent welfare system than the one existing in the welfare states around the world today. Instead of having numerous welfare programs, it would simply be one universal unconditional income. This strategy for introducing basic income is controversial because some basic income supporters argue that it should be added to the existing welfare system rather than a replacement for it. Also, money may not buy goods where people are in remote areas and markets have not developed. Further, there are questions about quality of goods and services and inflation.

Administrative efficiency: One of the benefits of a basic income is lower overall cost than that of the current one. For example, aadhaar linkage and direct transfer. However, if basic income does not deliver is reversed, it becomes problematic as because of it the welfare administration is dismantled like the PHCs, PDS shops etc.

Poverty reduction: Basic income is often argued for by its advocates because of its potential to reduce poverty, or even eradicate poverty. But the claims are contested as the fiscal space available in a country like India is limited and markets have not penetrated.

Basic income and growth: Basic income and growth allows for economic growth: there is assured demand because of the transfers. This is also debatable as the continuation is not guaranteed and so investors confidence may not be high to produce.

Freedom: Beneficiaries can use the income for whatever they want. The down side is that it will open up the faultlines like girls and women being sidelined; wasteful expenditure may be spent on etc. There is also a belief among critics that if people have free and unconditional money, they will not work (as much). Less work means less tax revenue and hence less money for the state and cities to fund public projects. There are also concerns that some people will spend their basic income on alcohol and drugs

Basic income in India started with the project organized by India's Self Employed Women's Association (SEWA) with support from UNICEF in 2011.

In total there are 20 villages in the project.According to pilot projects, positive results were found.Villages spent more on food and healthcare, children's school performance improved in 68% of families, time spent in school nearly tripled, personal savings tripled, and new business startups doubled.

In India the existing subsidies may be pruned by aadhaar linkage and the fiscal savings thus generated may be used for basic income whether it is for schemes like buying internet time or for health expenditure etc. But enormous care should be taken not to be overrun by the exuberance for UBI as that may lead to the existing structures for welfare being replaced by adhoc schemes. Economic Survey 2017 began the debate about the pros and cons of UBI.

Multidimensional Poverty Index (MPI)

Poverty is often defined by one-dimensional measures, such as income. But no one indicator alone can capture the multiple aspects that constitute poverty. Multidimensional poverty is made up of several factors that constitute poor people's experience of deprivation – such as poor health, lack of education, inadequate living standard, lack of income (as one of several factors considered), disempowerment, poor quality of work and threat from violence. A multidimensional measure can incorporate a range of indicators to capture the complexity of poverty and better inform policies to relieve it. Different indicators can be chosen appropriate to the society and situation.

The Multidimensional Poverty Index (MPI) was developed in 2010 by Oxford Poverty & Human Development Initiative and the United Nations Development Programme and uses different factors to determine poverty beyond income-based lists. It replaced the previous Human Poverty Index.

The index uses the same three dimensions as the Human Development Index: health, education, and standard of living. These are measured using ten indicators.

Dimension	Indicators
Health	• Child Mortality • Nutrition
Education	• Years of school • Children enrolled
Living Standards	• Cooking fuel • Toilet • Water • Electricity • Floor • Assets

Each dimension and each indicator within a dimension is equally weighted.

The MPI is an index of acute multidimensional poverty. It shows the number of people who are multi-dimensionally poor (suffering deprivations in 33% of weighted indicators) and the number of deprivations with which poor households typically contend.

INEQUALITY

Economic inequality refers to how economic resources and opportunities are unevenly distributed among people in general- some having disproportionately high some equally disproportionately deprived. It essentially refers to disparities in the distribution of economic assets and income- among individuals and groups within a nation and among nations- it has many dimensions: income, wealth and consumption.

Income Inequality: It refers to the extent to which income is distributed in an uneven manner among a population. Income includes the revenue streams from wages, salaries, interest on a savings account, dividends from shares of stock, rent and profits. In 2017, income disparities have become so pronounced that America's top 10 percent now average more than nine times as much income as the bottom 90 percent. US's top 0.1 percent are making over 198 times the income of the bottom 90 percent.

Wealth Inequality: Wealth refers to the total amount of assets of an individual or household. This may include financial assets, property, gold etc. Wealth inequality thus refers to the unequal distribution of assets among people.

Consumption Inequality: Increases in income and wealth inequality lead to higher inequality in outcomes such as consumption, health, education, transport, entertainment and overall well-being. In economics, it is these outcomes that actually enter the utility function, not income or wealth.

An increase in *consumption inequality* means the poor are buying fewer goods and services as their incomes have declined . Part of the decline is made up by welfare state intervention but the decline is real.

Technically, growth in income and wealth inequality need not mean less consumption by the poor. It is possible that rich are getting richer faster than the poor becoming less poor. But facts are otherwise. Rich are getting rich while the number of poor is growing. It is seen in the fact that economic growth is handicapped by demand deficit which is caused by consumption going down in the USA. Its economic potential is not being realized due to demand constraints.

It may result from the operation of the economic system, access to assets, nature of laws, education and skills, social factors like caste and gender etc.

The Consequences of Rising Inequality

On the human side, absolute and relative deprivation is appalling.

On the economic side, rich become so influential that crony capitalism results.

When wealthy individuals and corporations influence the government policy to their advantage: low minimum wage, no or limited national health insurance, inadequate spending on health, safety or pollution regulations, access etc. Thus, rising inequality has the danger of it aggravating even more.

On the social side, the faultlines in society become reinforced: gender, caste, ethnic and other divides become even more polarized.

Environmental danger deepen as there is no bottom up inputs in policy making and growth at any cost prevails.

Poverty-Inequality Link

Poverty is deprivation of basic human needs. It can be relative (depending on the national income/per capita of the country) or absolute which is deprivation of basic needs.

Inequality is always a relative term: how are different strata in the society placed with reference to the others.

As mentioned above, poverty and inequality generally go together but it need not necessarily be the case, even if absolute inequality rises.

Measures of Inequality

Gini Coefficient

The Gini coefficient measures inequality across the whole of society.If all the income/wealth goes to a single person (maximum inequality) and all others receive nothing, the Gini coefficient is equal to 1. If income is shared equally with everyone receiving the same amount, the Gini is equal to 0. The lower the Gini value, the more equal a society, as is evident from above. Most OECD countries have a coefficient lower than 0.32 with the lowest being 0.24. The UK, a fairly unequal society, scores 0.35 and the US, an even more unequal society, 0.38. In contrast, Denmark, a much more equal society, scores 0.25. The Gini Coefficient India is estimated to be close to 0.50.

The Gini coefficient can measure inequality before or after tax and before or after housing costs. The Gini will change depending on what is measured. A recent paper by well-known economists Lucas Chancel and Thomas Piketty say that India's pre-tax economic inequality is the highest since Independence (2017). The top one percent of income earners are garnering 22 per cent of total income in India.While the period 1951 to 1980 saw the poor narrowing the income gap with the well-to-do, the trend has reversed over the period 1980-2014.

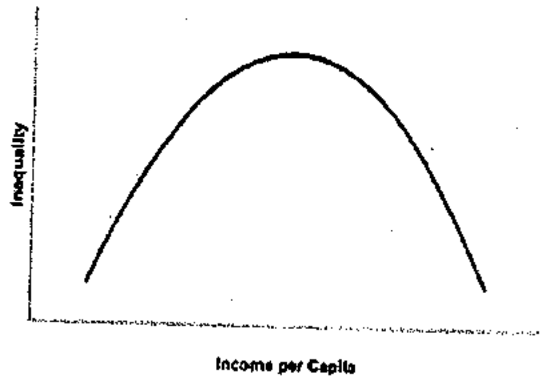
When we calculate the post-tax Gini Coefficient for India, it is likely to be lower the progressive income tax and corporate tax rates that India has particularly since 2013 are reducing disparity. Also, government welfare schemes are many and are working relatively well with Aadhhar, DBT and social audit.

Ahluwalia-Chenery Welfare Index

GDP may grow but the distribution of economic resources may in fact worsen making the rich richer and the poor poorer. Thus, inclusive growth and not merely growth is required. An index that measures how all social groups are impacted by growth is necessary. This problem was recognized by Montek Singh Alhuwalia. Alhuwalia's solution, the Ahluwalia-Chenery Welfare Index, measures how each social group is impacted from the prosperity. It is an alternative measure of income growth, one that gives equal weight to growth of all sections of society.

Kuznets Curve

Economist Simon Kuznets had hypothesised that, as an economy develops, inequality increases but later reduces. In other words, the shape of the Kuznets curve is like an inverted U. Japan, Germany and some other social democracies in Europe support the hypothesis.



Kuznets Curve and Thomas Piketty

Kuznets Curve says: the natural progression of development is towards industrialisation and urbanisation. Initially, this leads to increased inequality in society, as capitalists get richer and the influx of rural labour holds wages down.But as employment opportunities grow and the flow of cheap rural labour ia no longer there, wages rise and an equalisation tendency appears, which gets stronger over time. Thus, if we plot inequality against time, we get an inverted-U or bell-shaped curve. If this hypothesis were true, it would show that the "trickle down" of the benefits of growth to all is a natural and automatic part of market economies: "a rising tide lifts all boats".

The recent work of Thomas Piketty, Capital in the Twenty-First Century, questions the Kuznets Curve.Piketty shows that since 1980, there has been a sharp rise in inequality in the US, Japan and Europe. His data shows a U-curve in the trends of inequality in the advanced nations - US, Japan, Germany, France and Great Britain - the exact opposite of the Kuznets Curve. Inequality grows sharply after having fallen initially for a few years.

Piketty shows that there is nothing natural or automatic about declining inequality under market system. It is the destruction of war, the policies of a Keynesian welfare state and a strong labour movement that led to a decline in inequality in the 60-year period (1914-1974) . The trend shifted towards greater market forces and so inequality rose again since the 1980's and the result is the rise in inequality.

The most important engine that drives inequality up, according to Piketty, is the higher rate of return on capital compared to the low overall growth rate of the economy. In slowly growing economies, past wealth takes on a disproportionately higher importance. Inherited wealth grows faster than overall output and income.

Piketty says that there are powerful forces that can mitigate inequality. He specifically identifies diffusion of knowledge and skill as a key factor. But these too depend on state policies on education, access to training and skill development

Kuznets curve was a very tentative hypothesis by Kuznets who said: "Effective work in this field necessarily calls for a shift from market economics to political and social economy."

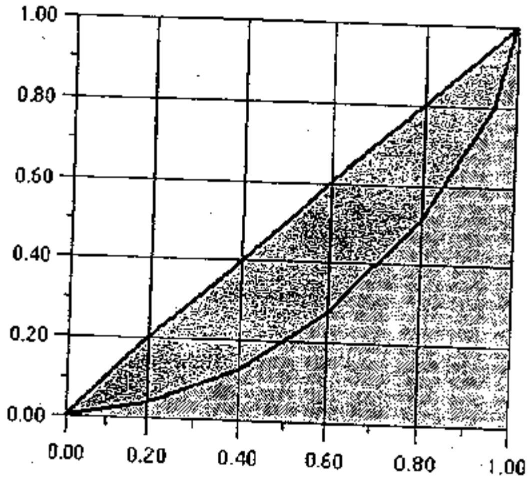
Palma Ratio

Unlike Gini index, ratio measures compare how much people in strata of the income distribution have compared to people at another. For instance, the 20:20 ratio compares how much richer the top 20% of people are, compared to the bottom 20%. For example, Palma ratio used by Oxfam is the ratio of the income share of the top 10% to that of the bottom 40%. In more equal societies this ratio will be one or below, : the top 10% does not receive a larger share of national income than the bottom 40%. In very unequal societies, the ratio may be as large as 7.

Lorenz Curve

The Lorenz curve was developed by Max O. Lorenz as a graphical representation of income inequality. It can be used to measure inequality of income or assets or any other facility.The Lorenz curve is the graphical representation of the Gini data. Gini coefficient is derived by taking the following two:

- area between the line of perfect equality and the Lorenz curve(a)
- area between the line of perfect equality and the line of perfect inequality (b)



Gini number is arrived when a is divided by b.

Ahluwalia-Chenery Welfare Index

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Gender Inequality Index (GII)

The Gender Inequality Index (GII) is an index for measurement of gender disparity that was introduced in the 2010 Human Development Report 20th anniversary edition by the United Nations Development Programme (UNDP). According to the UNDP, this index is a composite measure which captures the loss of achievement, within a country, due to gender inequality, and uses three dimensions to do so: reproductive health, empowerment, and labor market participation. The new index was introduced to remedy the shortcomings of the previous, and no longer used, indicators, the Gender Development Index (GDI) and the Gender Empowerment Measure (GEM), both of which were introduced in the 1995 Human Development Report.

GII is the first index to include reproductive health indicators as a measurement for gender inequality. The GII's reproductive healthhave two indicators: the Maternal Mortality Ratio (MMR) and the adolescent fertility rate (AFR). With a low MMR, it is implied that pregnant women have access to adequate health needs, therefore the MMR is a good measure of women's access to health care. The UNDP expresses that women's health during pregnancy and childbearing is a clear sign of women's status in society. A high AFR, which measures early childbearing, results in health risks for mothers and infants as well as a lack of higher education attainment. According to the UNDP data, reproductive health accounts for the largest loss due to gender inequality, among all regions.

The empowerment dimension is measured by two indicators: the share of parliamentary seats held by each sex, which is obtained from the International Parliamentary Union, and higher education attainment levels, which is obtained through United Nations Educational, Scientific and Cultural Organization (UNESCO) and some other sources. The GII index of higher education evaluates women's attainment to secondary education and above. Access to higher education expands women's freedom by increasing their ability to question and increases their access to information which expands their public involvement. There is much literature that finds women's access to education may reduce the AFR and child mortality rates within a country. Although women's representation in parliament has been increasing women have been disadvantaged in representation of parliament with a global average of only 16%.

The labor market dimension is measured by women's participation in the workforce. This dimension accounts for paid work, unpaid work, and actively looking for work. The data for this dimension is obtained through the International Labour Organization databases. Due to data limitations women's income and unpaid workare not represented in the labor market dimension of GII.

The metrics of the GII are similar in calculations to the Inequality-adjusted Human Development Index (IHDI), which was also introduced in the 2010 Human Development Report, and can be interpreted as a percentage loss of human development due to shortcomings in the included dimensions. The value of GII range between 0 to 1, with 0 being 0% inequality, indicating women fare equally in comparison to men and 1 being 100% inequality, indicating women fare poorly in comparison to men. There is a correlation between GII ranks and human development distribution, according to the UNDP countries that exhibit high gender inequality also show inequality in distribution of development, and vice versa.

Inter-Group Equality

Inclusiveness is not just about bringing those below an official fixed poverty line to a level above it. It is also about a growth process which is seen to be 'fair' by different socio-economic groups that constitute our society. The poor are certainly one target group, but inclusiveness must also embrace the concern of other groups such as the Scheduled Castes (SCs), Scheduled Tribes (STs), Other Back- ward Classes (OBCs), women, minorities, the differently abled and other marginalised groups. These distinct 'identity groups' are sometimes correlated with income slabs the SCs and STs, for example, are in the lower income category and all poverty alleviation strategies help them directly. Women on the other hand span the entire income spectrum, but there are gender-based issues of inclusiveness that are relevant all along the spectrum.

Inclusiveness from a group perspective goes beyond a poverty reduction perspective and includes consideration of the status of the group as a whole relative to the general population. For example, narrowing the gap between the SCs or STs and the general population must be part of any reasonable definition of inclusiveness, and this is quite distinct from the concern with poverty, or inequality, though the two are related.

Balanced Regional Development (BRD) and Inclusive Growth

Another aspect of inclusiveness relates to whether all States, and indeed all regions, are seen to benefit from the growth process. The regional dimension has grown in importance in recent years. On the positive side, many of the erstwhile backward States have begun to show significant improvement in growth performance and the variation in growth rates across States has narrowed. However, both the better performing and other States are increasingly concerned about their backward regions, or districts, which may not share the general improvement in living standards experienced elsewhere. Many of these districts have unique characteristics including high concentration of tribal population in forested areas, or Minorities in urban areas. Some districts are also affected by left wing extremism, making the task of development much more difficult.

Government pays special attention to the scope for accelerating growth in the States that are lagging behind. This requires strengthening of States' own capacities to plan, to implement and to bring greater synergies within their own administration and with the Central Government. An important constraint on the growth of backward regions in the country is the poor state of infrastructure, especially road connectivity, schools and health facilities and the availability of electricity, all of which combine to hold back development. Improvement in infrastructure must therefore be an important component of any region- ally inclusive development strategy.

The efforts of the govt in this regard are

- special category states
- Green revolution in the eastern region
- North eastern region Vision 2020
- PMGSY
- Bharatmala(2017)
- Saubhagya(2017)
- DDY
- PMAY

Green Revolution in Eastern India

It was during Union Budget 2010-11 that for the first time, separate funds were allocated for the eastern parts of the country. The scheme, which comes under Rashtriya Krishi Vikas Yojana, includes Assam, Bihar, Jharkhand, eastern UP, Chhattisgarh, Odisha and West Bengal. Rice was a priority crop under the scheme. The other areas of focus were asset-building activities such as water management, construction of farm ponds and repair of irrigation channels. The main motive behind this project is to ensure food security. The idea is to tap the eastern region for food grains and pulses. The Centre has also allocated finance for encouraging crop diversification to promote technological innovation. The original Green Revolution States face the problem of stagnating yields and over-exploitation of water resources. The answer lies in crop diversification.

Impact of inequality etc.

When inequality is growing, economic growth will not achieve its potential in reducing poverty. Steep inequality damages the long-term prospects for economic growth by creating conflict or instability and it also limit growth by restricting the number of people who can participate in markets. Urban-dominated growth in India has caused social friction as a result of the high levels of migration to cities and a shortage of foreign investment in more isolated areas.

To examine why growth is not reducing inequality, we need to see the fact that income growth is concentrated in certain urban centers, and those whose incomes increase are usually already above average in income and education, that those best positioned to gain from new economic opportunities are the educated urban-dwellers. On the other hand, the poor rely mainly on agriculture, and the agricultural sector has not been growing as fast as other sectors in most of Asia. They are not very high on human capital- education and skills and so can not enjoy the fruits of growth. Their health standards are low and thus can not be very productive and innovative which make the poverty cycle vicious for them.

The current context of new technologies, market-oriented reforms and globalization has not favored the agricultural sector. Other causes of the agricultural sector's lackluster growth include: the decrease in transfers of new technology to farmers, and government that invest little in agriculture and do little to encourage private investment in the sector.

Given that high levels of inequality are partly the result of government policy, government should address inequalities by introducing policies that ensure labour intensive growth; backward region development; social security; increased public investment in agriculture. Skills and training programs etc.

For millions of children, inequality means not having access to adequate nutrition, health, and basic education. Therefore, public policy has huge challenges in providing these services.

In sum, main reasons for widening economic gaps in recent years are:

- stagnation in agriculture while the economy is growing
- discrepancy in investment between urban and rural areas which favoured better-educated, better-off urban populations.
- Improvements in rural infrastructure were being held back by government policies which deterred private investment.
- Unevenness in growth in incomes across urban and rural areas, leading and lagging regions in the country, for example coastal and interior, and highly educated households and the less educated are important factors associated with increases in inequality.

Social Security

Certain social conditions need protection to prevent further distress - old age, poverty, unemployment, disability etc. Government provides social protection by way of wage employment, food grain either free or at affordable prices, old age pension etc. In some cases there is social insurance for disability etc.

In social insurance people receive benefits or services in return for contributions to an insurance scheme. These services include provision for retirement pensions, disability insurance, etc. Public distribution system in India is a social security example.

Social safety net is similar. It involves a collection of services provided by the state or other institutions including welfare, unemployment benefit, universal healthcare, homeless shelters etc to prevent individuals from falling into poverty beyond a certain level. For example, NREGA in India.

For many decades now, there have been laws in India that provided social security.

- **Workmen's compensation Act 1923:** A beginning was made in social security with the passing of the Workmen's Compensation Act in 1923. The Act provides for payment of compensation to workmen and their dependents in case of injury and accident (including certain occupational disease) arising out of and in the course of employment and resulting in disablement or death.
- **Maternity benefit scheme:** The Maternity Benefit Act, 1961 regulates employment of women in certain establishments for a certain period before and after childbirth and provides for maternity and other benefits.
- **Gratuity scheme:** The Payment of Gratuity Act, 1972 provides for payment of gratuity at the rate of 15 days' wages for each completed year of service subject to certain maximum.
- **Employees state insurance scheme:** The Employees' State Insurance Act provides medical care in kind and cash benefits in the contingency of sickness, maternity and employment injury and pension for dependents in the event of the death of a worker because of employment injury.
- **Employees provident fund:** Retirement benefits in the form of provident fund, family pension and deposit-linked insurance are available to employees.
- Employees Pension scheme
- Atal Bima Yojana
- Rashtriya Swasthya Bima Yojana
- Unorganised Workers Social Security Act 2008

EAG

The government had constituted an Empowered Action Group (EAG) under the Ministry of Health and Family Welfare following 2001 census to stabilise population in eight states (called EAG states) that were lagging in containing population. As per the latest census, EAG states Bihar, Jharkhand, Uttar Pradesh, Uttarakhand, Rajasthan, Madhya Pradesh, Chhattisgarh and Odisha have shown little improvement. They cover over 45 per cent of India's population.

EAG needs to strengthen the systems of governance and monitoring. However, the greater need is to involve the community successfully through local empowerment and convergence. In a federal structure like India, there is need to strengthen the Centre-State coordination before direct interventions can be made at district levels. Problems in the EAG States are less to do with the availability of funds than the issue of governance. Therefore, proposals for resolving the systemic issues relating to key areas such as human resource management, logistics management, integration of numerous health societies at State and district levels, regular release of funds to operational levels, joint planning/training for the field staff of the cognate departments, greater autonomy to the districts and within districts, to hospitals and PRIs, are integral parts of the plan. Among the Empowered Action Group (EAG) states and Assam, all states except Uttarakhand have registered the decline in the infant mortality rate in 2016 in comparison to 2015 as reported in 2017.

Aajeevika Grameen Express Yojana (AGEY)

The Government of India has decided to launch a new sub-scheme named "Aajeevika Grameen Express Yojana (AGEY)" as part of the Deendayal Antyodaya Yojana – National Rural Livelihoods Mission (DAY-NRLM). The Self Help Groups under DAY-NRLM will operate road transport service in backward areas. This will help to provide safe, affordable and community monitored rural transport services to connect remote villages with key services and amenities (such as access to markets, education and health) for the overall economic development of backward rural areas. This will also provide an additional avenue of livelihood for SHGs.

The Community Investment Fund (CIF) provided to Community Based Organization (CBOs) under DAY-NRLM will be utilized to support the SHG members in this new livelihoods initiative. The beneficiary SHG member will be provided an interest free loan by the CBO from its Community Investment Fund upto Rs.6.50 lakh for purchase of the vehicle. Alternative, CBO will own the vehicle and lease it to an SHG member to operate the vehicle and pay lease rental to the CBO.

AGEY will be initially implemented in 250 Blocks in the country on pilot basis with each Block provided upto 6 vehicles to operate the transport services. The Blocks will be selected by States from among the Blocks where NRLM is being implemented intensively and where mature CBOs are already functioning. Backwardness, lack of transportation links and sustainability of service would be the guiding factors in the selection of Blocks and routes.

The State Rural Livelihood Missions (SRLMs) will do a feasibility study and traffic survey in the selected blocks to identity the routes and the number and capacity of vehicles which can be operated on sustainable basis. The study will be conducted by technically sound organizations with expertise in transport network planning. The choice of vehicle could be either e-riksha, 3 wheeler or 4 wheeler within a cost ceiling of Rs.6.50 lakh.
The SRLMs will be co-ordinating with State Transport Department for issue of permit for the vehicle. The SHG member operating the vehicle shall ensure that all necessary legal and statutory requirement such as valid permit, road tax permit, valid insurance policy etc. are met. The SHG member shall run the vehicle on approved routes at pre-determined frequency as jointly agreed between the CBO and the SHG operator based on financial viability and the need for transport link. All vehicles under the scheme shall have a defined colour code and carry AGEY branding to ensure their identity and avoid diversion to other routes.

The State Rural Livelihood Mission will arrange capacity building for their staff at State, District and Block levels for operating the Scheme. The members of the CBO and the beneficiary SHG member shall also be provided adequate training in the Rural Self Employment Training Institutes (RSETIs) and other partner organizations.

National Rural Livelihoods Mission (NRLM)

The Ministry of Rural Development, Government of India launched in 2013 a new programme known as National Rural Livelihoods Mission (NRLM) by restructuring and replacing Aajeevika programme which was earlier the Swarnjayanti Gram Swarozgar Yojana (SGSY). NRLM was renamed as DAY-NRLM (Deendayal Antyodaya Yojana - National Rural Livelihoods Mission) in 2016 and is the flagship program of Govt. of India for promoting poverty reduction through building strong institutions of the poor, particularly women, and enabling these institutions to access a range of financial services and livelihoods services.

DAY-NRLM is designed to be a highly intensive program and focuses on intensive application of human and material resources in order to mobilize the poor into functionally effective community owned institutions, promote their financial inclusion and strengthen their livelihoods. DAY-NRLM complements these institutional platforms of the poor with services that include financial and capital services, production and productivity enhancement services, technology, knowledge, skills and inputs, market linkage, etc. The community institutions also offer a platform for convergence and partnerships with various stakeholders by building environment for the poor to access their rights and entitlements and public service.

A women's self-help group, coming together on the basis of mutual affinity is the primary building block of the DAY-NRLM community institutional design. DAY-NRLM focuses on building, nurturing and strengthening the institutions of the poor women, including the SHGs and their Federations at village and higher levels. In addition, DAY-NRLM promotes livelihood institutions of rural poor. The mission provides a continuous hand-holding support to the institutions of poor for a period of 5-7 years till they come out of abject poverty. The community institutional architecture put in place under DAY-NRLM will provide support for a much longer duration and of a greater intensity.

The support from DAY-NRLM includes all round capacity building of the SHGs ensuring that the group functions effectively on all issues concerning their members, financial management, providing them with initial fund support to address vulnerabilities and high cost indebtedness, formation and nurturing of SHG federations, making the federations evolve as strong support organizations, making livelihoods of the poor sustainable, formation and nurturing of livelihoods organizations, skill development of the rural youth to start their own enterprises or take up jobs in organized sector, enabling these institutions to access their entitlements from the key line departments, etc.

The implementation of DAY-NRLM has been in a Mission Mode since 2013. DAY-NRLM adopts a demand driven approach, enabling the States to formulate their own State specific poverty reduction action plans. DAY-NRLM enables the State rural livelihoods missions to professionalize their human resources at State, district and block level. The State missions are capacitated to deliver a wide range of quality services to the rural poor. DAY-NRLM emphasizes continuous capacity building, imparting requisite skills and creating linkages with livelihoods opportunities for the poor, including those emerging in the organized sector, and monitoring against targets of poverty reduction outcomes. The blocks and districts in which all the components of DAY-NRLM will be implemented, either through the SRLMs or partner institutions or NGOs, will be the intensive blocks and districts, whereas remaining will be non-intensive blocks and districts. The selections of intensive districts are done by the states based on the demographic vulnerabilities. It will be rolled out in a phased manner over the next 7-8 years. All blocks in the country will become intensive blocks over time.

Women SHGs and their Federations

Women SHGs under DAY-NRLM consist of 10-20 persons. In case of special SHGs i.e. groups in the difficult areas, groups with disabled persons, and groups formed in remote tribal areas, this number may be a minimum of 5 persons. DAY-NRLM promotes affinity based women Self –help groups. Only for groups to be formed with Persons with disabilities, and other special categories like elders, transgenders, DAY-NRLM will have both men and women in the self-help groups. SHG is an informal group and registration under any Societies Act, State cooperative Act or a partnership firm is not mandatory .However, Federations of Self Help Groups formed at village, Gram Panchayat, Cluster or higher level may be registered under appropriate acts prevailing in their States.

Financial Assistance to the SHGs

Revolving Fund (RF): DAY-NRLM would provide Revolving Fund (RF) support to SHGs in existence for a minimum period of 3/6 months and follow the norms of good SHGs, i.e. they follow 'Panchasutra' – regular meetings, regular savings, regular internal lending, regular recoveries and maintenance of proper books of accounts. Only such SHGs that have not received any RF earlier will be provided with RF, as corpus, with a minimum of ₹10,000 and up to a maximum of ₹15,000 per SHG. The purpose of RF is to strengthen their institutional and financial management capacity and build a good credit history within the group.

Community Investment support Fund (CIF)

CIF will be provided to the SHGs in the intensive blocks, routed through the Village level/ Cluster level Federations, to be maintained in perpetuity by the Federations. The CIF will be used, by the Federations, to advance loans to the SHGs and/or to undertake the common/collective socio-economic activities.

DAY - NRLM Values

The core values which guide all the activities under NRLM are as follows:

- Inclusion of the poorest, and meaningful role to the poorest in all the processes
- Transparency and accountability of all processes and institutions
- Ownership and key role of the poor and their institutions in all stages – planning, implementation, and, monitoring
- Community self-reliance and self-dependence

Key Features

- **Universal Social Mobilisation:** At least one woman member from each identified rural poor household, is to be brought under the Self Help Group (SHG) network in a time bound manner. Special emphasis is particularly on vulnerable communities such as manual scavengers, victims of human trafficking, Particularly Vulnerable Tribal Groups (PVTGs), Persons with Disabilities (PwDs) and bonded labour. NRLM has devised special strategies to reach out to these communities and help them graduate out of poverty.
- **Participatory Identification of Poor (PIP):** The inclusion of the target group under NRLM is determined by a well-defined, transparent and equitable process of participatory identification of poor, at the level of the community. All households identified as poor through the PIP process is the NRLM Target Group and is eligible for all the benefits under the programme. Target Group is identified through the Participatory Identification of Poor (PIP) method.

- **Community Funds as Resources in Perpetuity:** NRLM provides Revolving Fund (RF) and Community Investment Fund (CIF) as resources in perpetuity to the institutions of the poor, to strengthen their institutional and financial management capacity and build their track record to attract mainstream bank finance.

- **Financial Inclusion:** NRLM works on both demand and supply sides of financial inclusion. On the demand side, it promotes financial literacy among the poor and provides catalytic capital to the SHGs and their federations. On the supply side, the Mission coordinates with the financial sector and encourages use of Information, Communication & Technology (ICT) based financial technologies, business correspondents and community facilitators like 'Bank Mitras'. It also works towards universal coverage of rural poor against risk of loss of life, health and assets. Further, it works on remittances, especially in areas where migration is endemic.

- **Livelihoods:** NRLM focuses on stabilizing and promoting existing livelihood portfolio of the poor through its three pillars – 'vulnerability reduction' and 'livelihoods enhancement' through deepening/enhancing and expanding existing livelihoods options and tapping new opportunities in farm and non-farm sectors; 'employment' - building skills for the job market outside; and 'enterprises' - nurturing self-employed and entrepreneurs (for micro-enterprises).

- **Convergence and partnerships**

- **Convergence:** NRLM places a high emphasis on convergence with other programmes of the MoRD and other Central Ministries. Convergence is also sought with programmes of state governments for developing synergies directly or indirectly with institutions of the poor.

- **Partnerships with NGOs and other CSOs:** NRLM has been proactively seeking partnerships with Non-Government Organizations (NGOs) and other Civil Society Organizations (CSOs), at two levels - strategic and implementation. The partnerships are guided by NRLM's core beliefs and values, and mutual agreement on processes and outcomes. Partnership guidelines to partner with NGOs, CSOs have been finalized and approved this year.

- **Linkages with PRIs:** In view of the eminent roles of Panchayat Raj Institutions (PRIs), it is necessary to consciously structure and facilitates a mutually beneficial working relationship between Panchayats and institutions of the poor, particularly at the level of Village Panchayats. Formal platforms would be established for regular consultations between such institutions and PRIs for exchange of mutual advice, support and sharing of resources.

Saubhagya

Pradhan Mantri Sahaj Bijli Har Ghar Yojana (Saubhagya) may emerge as the foundation for multiple growth related, inclusive and environmental goals: reduce import of fossil fuels, boost underutilized power plants and meet its climate change commitments. By providing universal access to electricity under the scheme, it helps to promote induction cooking, heating and charging electric vehicles, apart from the initial target of providing lighting. This, in turn, will reduce India's energy imports and generate fresh demand for electricity in the country. The Rs16,320-crore Saubhagya scheme will provide electricity connections to over 40 million families in rural and urban areas by December 2018.

Once there is electricity in the village, it will create a multiplier effect. A service cable will be drawn from the nearest electricity pole to the household premise where an electricity meter will be installed along with the wiring for a single light point with LED bulb and a mobile charging point. Any substitution of fuels for cooking, transportation and heating will improve India's per capita power consumption of around 1,200 kWh which is among the lowest in the world. The scheme will also help India, the world's third largest energy consumer after the US and China, to help meet its global climate change commitments. The government has set a target of lowering import dependence in oil by 10 percentage points to 67% by 2022, when the country will celebrate 75 years of Independence.

There will be advances in areas of electric vehicles and induction cooking. India has drawn up an ambitious plan for a mass shift to electric vehicles by 2030 with state-owned Energy Efficiency Services Ltd (EESL) going ahead with the first stage of procuring 10,000 electric cars. Saubhagya will have several benefits apart from enhancing demand on the grid and viability of stressed assets. Last mile connectivity will provide options to customers to utilise electricity for cooking, mobility, heating and lighting apart from socioeconomic benefits. According to the government, the Saubhagya scheme will require an additional 28,000 megawatt (MW) of power, considering an average load of 1 kilowatt (kW) per household for eight hours in a day.

IMR

Infant mortality rate compares the number of deaths of infants under one year old in a given year per 1,000 live births in the same year. This rate is often used as an indicator of the level of health in a country. India improved on IMR and reported an 8% decline in the infant mortality rate (IMR) in 2016 from a year ago, an improvement aided by a higher number of institutional deliveries and campaigns to promote breastfeeding and immunization. IMR declined to 34 per 1,000 live births last year from 37 per 1,000 live births in 2015, according to the Sample Registration System (SRS) bulletin, released by the Office of the Registrar General in September 2017.

The bulletin said the birth cohort—babies born during the year—had come down to below 25 million for the first time. In 2005, only 38% deliveries were taking place in hospitals; but now, more than 79.8% are institutional deliveries. India has registered 90,000 fewer infant deaths in 2016 as compared to 2015. The total number of estimated infant deaths had declined to 840,000 in 2016 from 930,000 in 2015.

IMR declined in 29 states and Union territories, was stable in two states and increased in five states and Union territories. The highest decline of 7 points was reported by Chandigarh and the highest increase of 6 points was reported by Arunachal Pradesh. The gender difference between female and male IMR has also reduced to less than 10 points. It is a major boost to the 'Beti Bachao Beti Padhao' initiative of the government. Earlier it used to be above 20 points. There has been a gradual change in social systems such as delayed marriages, thereby lesser adolescent pregnancies, and economic status of people with time that has also contributed to progress in health systems. The government identified and targeted 184 districts with the worst IMR to bring about an improvement. Free health services for pregnant women and newborns also helped. The highest IMR in 2016 was reported in Madhya Pradesh (47) followed by Assam and Odisha (44), Uttar Pradesh (43) and Rajasthan (41). Efforts of focusing on low-performing states are paying off. Improvement is attributed to countrywide efforts to expand health services coverage, including reproductive, maternal and newborn health services.

The lowest IMR was reported by Goa (8) followed by Kerala and Puducherry (10). Rural IMR (38) was 15 points higher than the urban IMR (23). In comparison to 2015, the rural-urban difference narrowed by one point (16 to 15). The rural IMR declined by 3 points (41 to 38).

Globalisation And Inequality

The integration of the world economy through the progressive globalization of trade, investment and finance has reached unprecedented levels. This new wave of globalization is having far-reaching implications for the economic well-being of citizens in all regions and among all income groups, and is the subject of active public debate about globalization and its implications for growth and inequality and the distribution of income within countries. The debate on the distributional effects of globalization is often polarized between two points of view. One school of thought argues that globalization leads to a rising tide of income, which raises all boats. Hence, even low-income groups come out as winners from globalization in absolute terms. The opposing school argues that although globalization may improve overall incomes, the benefits are not shared equally among the citizens of a country, with clear losers in relative and possibly even absolute terms. Moreover, widening income disparities may not only raise welfare and social concerns, but may also limit the drivers of growth because the opportunities created by the process of globalization may not be fully exploited.The sustainability of globalization will also depend on maintaining broad support across the population, which could be adversely affected by rising inequality.

Different countries have felt different outcomes under globalization. China tapped its potential fully- even as inequality grew with it, poverty has been dramatically reduced. In US and India, inequality grew due to:

More talented sections having their pay gallop while others grew far less. There are broader and disproportionate upper-income gains. When compared with gains for middle- and lower-income groups. It matters because it influences society's willingness to tolerate inequality and the credibility of globalization.

There is a growing consensus that trade, driven in part by the integration of China into the world economy, has played a role in rising income .Rising import competition has adversely affected manufacturing employment, led firms to either shut down abd become distribution agents for chinese goods or upgrade their production and caused labor earnings to fall. Also, the financial markets with speculative activity made rich richer with others having little or no scope for improving their lot.

Industrialists in some sectors saw their wealth grow as they found their market footprint expanded globally. That made little difference to poor and low income groups and much of it capital-intensive growth.

To bridge the inequality is possible if there are redistributional interventions. There are: RTE, Health Mission, PMGSY, Golden Quadrilateral; NHDP, Digital India, Skill Mission etc. But the progress is slow and the quality in some needs drastic improvement like in schools, hospitals, nutrition and skills. Till the interventions pay off, opportunities for the lower part of the pyramid are likely to stagnate and inequality will rise rapidly.

Populism is one direct effect of globalization falling far short of expectations of the ordinary people.

PUBLIC SECTOR

Evolution, Reforms and Performance

Public sector units are enterprises - some are commercially oriented and some are not (Food Corporation of India) are owned by Government- Central or state- either wholly or at least the majority of shares in each. Public sector enterprise normally has forms of organisational structure like departmental undertakings (Railways etc); statutory corporations (Oil and Natural Gas Corporation Limited); companies registered under the Companies Act 2013 (Bharat Heavy Electricals Limited -BHEL) mainly. Departmental undertakings are not formed by or with the consent of the legislative authority. These are set up by the executive actions of government bodies and are charged with the duty of carrying out specially defined functions. These undertakings are not independent entities. They are subject to budgetary, audit and other controls of the government and are managed by civil servants. They are financed by annual budgets. A departmental undertaking is best suited where the main purpose of the enterprise is to collect revenue for the state and to provide public utilities and services at fair prices in larger public interest. Some examples of departmental undertakings are the Railway, Postal Department etc.

Statutory corporations are enterprises normally engaged in economic or manufacturing activities and are set up by act of legislature. These corporations are legal entities separate from the government and also the persons who conduct their affairs. ONGC, IOC etc are some examples. Shares of such corporations are in the name of the government and these are thus owned and controlled by the government. Statutory corporations enjoy extensive legal autonomy, and their rules, objectives, functions and duties are defined and specified in the Parliamentary Act. Financing statutory corporations is not part of the Budget and therefore, they can retain their revenues, and also spend as per the rules laid down by the statute.

Control Boards are set up to manage government projects- for example, the river valley projects. Bhakra Management Board.

Government Company is one where the government owns 51% or more of the paid up capital, according to Companies Act 2013.

Rarely, PSE can be in the form of cooperative society to support cooperative movement- Indian Farmers Fertilizer Cooperative Ltd (IFFCO), Krishi Bharati Cooperative Ltd (KRIBHCO) etc. They are registered under Multi State Cooperative Societies Act. Over 65% of the capital of the units is held by the Central Government

In India, we have all these types of PSEs.

Since the beginning of socio-economic planning after the Independence, public sector played a preeminent role in India. Commanding heights of the economy were to be in the hands of the public sector – basically infrastructure and basic industries like heavy engineering, power, metals etc. PSEs dominated the Industrial Policy Statement 1948 and IP Resolution 1956. They were opted for by the Government partly as the Government wanted to steer the economy towards planning goals rapidly and also because of pragmatic compulsions like the presence of the private sector in manufacturing was negligible and they were not willing to take up the unprofitable work of investing in infrastructure.

The objectives of the PSUs are

- To build a self reliant economy
- To prevent/reduce concentration of private economic power
- Establish sound economic infrastructure
- Set up industries in the backward regions and thus help bring about balanced regional development
- Assist in ancillarization and thus spread the benefits of industrialization
- Create sufficient levels of employment and set standards in labour welfare
- Selling goods and services at reasonable prices so as to serve consumer, keep prices affordable and help non inflationary growth process.
- Invest in areas where the private sector would not invest like in roads, transport and so on.

Since planning began in 1951, the public sector has been the main engine of inclusive growth as can be seen below.

The Public Enterprises (PE) Survey is a consolidated annual report on the performance of all Central Public Sector Enterprises (CPSEs) and their subsidiaries for the financial year 2015-16 which was made public in 2017. It is laid in both the Houses of Parliament every year during the Budget Session.

The overall performance of CPSEs in India has shown improvement during the financial year 2015-16 over the previous year despite declining commodity prices and a subdued global economic scenario. The overall net profit of the 244 operating CPSEs went up to Rs.1,15,767 crore in 2015-16.

The CPSEs have been making a substantial contribution to the Central Government through payment of dividend, interest, corporate taxes, excise duties etc. The contribution by the CPSEs through these avenues increased to Rs.2,78,075 crore in 2015-16. The survey excludes excluding insurance, finance and other companies.

The importance of the PSEs is

- The record of the PSUs in supplying many goods and services like coal, transport, power, irrigation and so on is commendable
- The PSUs are a model employer providing various facilities like education, housing and so on.
- Establishing industries in MP , Rajasthan , Bihar and so on , the efforts of the PSUs to reduce regional economic imbalances are not insignificant
- Non-inflationary growth process is facilitated because of the PSEs as prices of their goods and services can be administered.

While considering the performance of the PSUs it must be recognised that most of them had locational disadvantage; sold the product at administered prices (government fixed price); did not have access to the best of technology; had excess of manpower; operated in areas not meant for profit making like Railways; were subject to multiple controls and excess of accountability and so on. Even while sick PSEs are reducing in number, the problems are compounded by : resource crunch, erosion of net-worth due to continuous losses incurred by the PSUs, reluctance of financial institutions to provide funds for revival of PSUs, heavy interest burden, old and obsolete plant and machinery, outdated technology, low capacity utilisation, excess manpower, weak marketing strategy, etc. Inadequate autonomy is one reason. Populism and the absence of rational pricing of goods and services is another reason for the low levels of efficiency in PSUs.

Public Sector and Economic Reforms

Economic reforms were, made necessary to make the economy competitive through market forces. It was expected to post higher growth rates; make industry yield higher productivity, profits and taxes which can contribute to poverty alleviation on a war footing. Public sector was in need of competition to unlock its value. Therefore, domestic and foreign capital was invited to force the PSEs to compete and perform. Government recognized the need for PSE reform during the 7th FYP (1985-1990).

The New Industrial Policy 1991 made significant changes like dereserving many areas with only 3 areas being reserved today(2017); equity disinvestment; managerial revamp with greater autonomy; refering a sick PSU to the Board of Industrial and Financial Reconstruction (BIFR) and so on.

List of industries reserved for the public sector

1. Atomic Energy
2. Minerals specified in the Schedule to the Atomic Energy (Control of Production and Use) Order, 1953
3. Railway passenger transport.

The period since 1991 when reforms were launched saw many reforms in the way PSEs should function

- Dereservation
- withdraw them from commercial and other areas like hotels, bakery, cycles etc
- disinvest a portion of the PSU equity for a variety of purposes
- strategic sale where a PSE is sold over to a strategic partner who buys majority equity and takes over management and may extend to complete ownership in due course.
- Increasingly they are being subject to market discipline primarily by listing on the stock exchanges which is the direct outcome of divestment
- Globalization - liberal FDI norms and import of capital goods, compel the PSUs to perform.
- The MOU system is being improved with greater weightage being given to the criterion of financial performance
- Navaratnas (1997) are granted financial and managerial autonomy for global competitiveness (Read ahead)
- mini –ratnas were taken up for similar reforms
- Maharatnas have been recognized since 2011
- professionalization of boards
- ETF(Bharat-22) 2017

As mentioned above, the reforms have paid off and the performance improved.

Public sector enterprises have been set up to serve the broad macro-economic objectives of higher economic growth, self-sufficiency in production of goods and services, long term equilibrium in balance of payments and low and stable prices. While there were only five Central Public Sector Enterprises (CPSEs) with a total investment of Rs. 29.00crore at the time of the First Five Year Plan, there are as many 244 CPSEs today (2017).

A large number of CPSEs have been set up as Greenfield projects consequent to the initiatives taken during the Five Year Plans. CPSEs such as National Textile Corporation, Coal India Ltd.(and its subsidiaries) have, however, been taken over from the private sector consequent to their 'nationalization'. Industrial companies such as Indian Petrochemicals Corporation Ltd., Modern Food Industries Ltd., Hindustan Zinc Ltd., Bharat Aluminium Company and Maruti Udyog Ltd., on the other hand, which were CPSEs earlier, ceased to be CPSEs after their 'privatization'.

Along with other public sector majors such as Indian Railways in transportation, the CPSEs are leading companies of India with significant market-shares in sectors such as petroleum, (e.g. Coal India Ltd. and NMDC), power generation (e.g. NTPC and NHPC), power transmission (e.g. Power Grid Corporation of India Ltd.), heavy engineering (e.g. BHEL), aviation industry (eg. Hindustan Aeronautics Ltd. and Air India Ltd.) storage and public distribution system (eg. Food Corporation of India and Central Warehousing Corporation), shipping and trading (eg. Shipping Corporation of India Ltd. and State Trading Corporation Ltd.) and telecommunication (eg. BSNL and MTNL).

With economic liberalization, post 1991, sectors that were exclusive preserve of the public sector enterprises were opened to the private sector. The CPSEs, therefore, are faced with competition from both domestic private sector companies (some of which have grown very fast) and the large multi-national corporation (MNCs).

Disinvestment and Privatization

The New Industrial Policy 1991, as mentioned above, talked of disinvestment and the Finance Minister's Budget Speech in 1999-2000 talked of privatization for the first time. Definitions are important.

Disinvestment is the sale of shares of the Government to the retail public or employees or mutual funds or the FIIs. In other words, in disinvestment (divestment), there is no change in the management from public to private hands because either the government holds majority equity (51%) or even if the government holds less than 51% of equity, rest of it is sold to various individuals and institutions none of whom holds enough to take over management. It is essentially money-raising exercise with some accompanying benefits. Holding less than 51% is technically possible but so far has never been done because at that level, the PSE ceases to be a public sector company.

If the Government sells chunk of equity to a single buyer- 26% or 51% or more- to whom the management is also handed over, it is called strategic sale and the buyer is called strategic partner. It is a case of privatization. The buyer is one who has presence in the sector and can add value to the unit. For example, IPCL being sold to Reliance Industries Ltd (RIL) and Balco sold to Sterlite.

Government may also sell off a unit to a strategic buyer- entire equity.

Strategic buyer is one who not only buys the chunk of entire equity- in one tranche or more- but also takes over management. That is the 'strategic' part of the sale. It is unlike usual disinvestment where sale of shares is unaccompanied by management control transfer. The strategic partner gives higher price for the shares as he gets management control along with it(management premium). Also, running of the unit improves.

Privatization and strategic sale are the same.

As mentioned above, disinvestment can be for less than 50% stake sale in which case the company remains a Government company.

The advantages with strategic sale (privatization) are that it gets investment; the strategic partner with management control will invest further for diversification and technological improvement; market perception will improve as it is no longer a government company; and shareholder value will increase. With the improvement of the functioning of the company, workers' protection will also be guaranteed.

Corporatization is a related term. It means: government units are reorganized along business lines. Typically they are required to pay taxes, raise capital from the market (with no government backing, explicit or implicit), and operate according to commercial principles. Government corporations focus on maximizing profits and achieving a favorable return on investment. They have to operate in a level playing field along with the private sector without any special advantages, more or less.

Advantages of Disinvestment/Privatization

- it raises finances for the government that can be spent on restructuring the PSEs
- makes additional finances available for the social sector priorities
- exposes the enterprises to market discipline, thereby forcing them to become more efficient and survive on their own financial and economic strength
- when units become more professionalized and profitable , budgetary support for them can be minimized freeing resources for social and infrastructural needs
- results in wider distribution of wealth through offering of shares to small investors and employees.
- beneficial effect on the capital market; the increase in floating stock would give the market more depth and liquidity and facilitate raising of funds by the PSEs for their projects or expansion, in future.
- Opening up the public sector to appropriate private investment would increase economic activity and benefits the economy, employment and tax revenues in the medium to long term.
- Reducing the public debt that is threatening to assume unmanageable proportions
- Releasing other tangible and intangible resources, such as, large government manpower currently locked up in managing the PSEs, and their time and energy, for redeployment in high priority social sectors that are short of such resources

In many areas, e.g., the telecom sector, the end of public sector monopoly brought relief to consumers by way of more choices and cheaper and better quality of products and services. Competition made them perform better as outlined above.

Criticism of Divestment

While the advantages are convincing, the criticism is not to be dismissed wither.

- They constitute family silver and should not be liquidated
  - PSEs check the private sector in the wider market place and so are crucial to economy. For example, if PSEs are not there, private enterprises may cartelise etc
  - PSEs contribute by way of dividends and profits and thus are important sources of public finance
  - The exercise is essentially meant to garner resources for filling the revenue deficit

A prudent middle path needs to be adopted by way of extent of divestment; unit chosen; pace of the process; method adopted – IPO, strategic sale etc; valuation debate etc.

By 2016, about Rs.1.8 lakh crores were raised totally since 1992, approximately.

Valuation of Shares

Fixing the price of shares for PSEs is done on the basis of the discounted cash flow (DCF) model. The DCF model is a method of valuing a business today based on the stream of its future profits or cash flows. It is said to be the best of the given methods.

Net asset valuation is not adopted as it applies only to the units that are being wound up and not for running businesses.

Government Policy on Disinvestment /Privatization

As a part of reforming the PSEs, Government's policy on disinvestment and privatization is evolving since the beginning of the reforms in 1991.

Its main elements are: -

- Divest to raise money and other advantages
- Strategic sale is considered for loss making companies. NITI Aayog recommended strategic disinvestment of 34 sick public sector units
- List all unlisted public sector enterprises and sell a minimum of 25 percent of equity to the public as mandated by SEBI by 2017
- Buyback of shares , for example, CIL and EIL in 2017
- Profit-making PSUs will not be privatized
- Restructure and revive potentially viable PSUs;
- Close down PSUs which cannot be revived or sold
- Fully protect the interests of workers.

Strategic & Non-strategic Classification

Government classified the Public Sector Enterprises into strategic and non-strategic areas for the purpose of disinvestment. It was decided that the Strategic Public Sector Enterprises would be those in the areas of:

- Arms and ammunitions and the allied items of defence equipment, defence aircrafts and warships;
- Atomic energy (except in the areas related to the generation of nuclear power and applications of radiation and radio-isotopes to agriculture, medicine and non-strategic industries);
- Railway transport.
- All other Public Sector Enterprises were to be considered non-strategic.

Buyback of Shares

Buy-Back is a corporate action in which a company buys back its shares from the existing shareholders usually at a price higher than market price. When it buys back, the number of shares outstanding in the market reduces.

A buyback allows companies to gain name and also material advantages. By reducing the number of shares outstanding on the market, buybacks increase the proportion of shares a company owns that is in percentage terms. Companies buy back shares on the open market over an extended period of time.

The reasons for and advantages of buy-back:

- To provide an additional exit route to shareholders when shares are under valued or are thinly traded;
- To enhance consolidation of stake in the company;
- To return surplus cash to shareholders;
- To support share price during periods of sluggish market conditions;

State-owned Engineers India Ltd's Rs. 658.80 crore share buyback took place recently. The funds for the buyback were met out of internally generated cash resources of the company. The government was the largest beneficiary as it sold its shares in the company. The government encouraged cash—surplus PSUs to go for share buybacks to meet its disinvestment target. For the 2017—18 fiscal, it set a target of raising Rs. 72,500 crore through minority sales, strategic disinvestments as well as through listing of state—owned insurance companies.

EIL is a Navratna public sector unit under the administrative control of the Ministry of Petroleum and Natural Gas. It is an engineering consultancy company providing design, engineering, procurement, construction and integrated project management services, principally focused on the oil and gas, petrochemicals, fertiliser and LNG industry segments in India and internationally. The company also operates in other sectors including non—ferrous mining and metallurgy, waste water and infrastructure. It is also a primary provider of engineering consultancy services for the government's energy security initiative under its Integrated Energy Policy for strategic crude storages.

Cross-Holdings

State-owned companies like Coal India, NTPC and NHPC, have significant cash on their balance sheets. It can be used by them to buy shares of one another as the companies are related and have synergies. Similarly, oil companies. When they buy shares of one another in bulk, the can guide each other and work with a common purpose. Government benefits as such purchase is done from the promoter.

PSE-ETF

GOI in 2014 sold some of its equity to a private fund manager in 10 PSEs. Toghether they make a fund. The fund is the basis for units issued to those who gave money. The fund is listed on the stock exchange and is traded. The advantage is that the average valuation of 10 PSEs is reflected and thus the risk is less though so is the reward. It is called exchange traded fund (ETF). GOI raised Rs 3,000 crore in 2014 with the launch of its first CPSE. Subsequently, it raised Rs 8,500 crore through two follow-on offers of the CPSE ETF in 2017. Bharat-22 is being launched in 2017.

SUUTI

Government holds stake in 51 companies, both listed and unlisted, through the Specified Undertaking of Unit Trust of India, or SUUTI. Of these, 43 companies are listed on the stock exchanges and eight companies are unlisted.GOI has significant shareholdings in three companies, ITC, Axis Bank (erstwhile UTI Bank) and Larsen & Toubro, earlier held by the erstwhile Unit Trust of India before its breakup. SUUTI's equity stakes in L&T, ITC and Axis Bank are valued at above Rs 50,000 crore.

Bharat-22

In 2017, the next stage of ETF was launched in an innovative manner. It is called Bahart-22 and is somewhat different from the earlier one htough essentials are same.Bharat-22 has 19 central public sector enterprises, government banks and some holdings of the government's investment arm SUUTI.

Bharat-22 has 22 constituents against CPSE ETF's 10. In that sense, Bharat-22 is more diversified. Bharat-22 has a single company cap of 15% weightage in the fund, and a sectoral cap of 22%, ensuring that it is well represented by a diversified spectrum of PSUs.While CPSE ETF has only state-run companies as its constituents, Bharat-22 has the government selling stakes in some of the private sector blue-chip companies as well like some holdings of SUUTI (Specified Undertaking of Unit Trust of India) as mentioned above.Bharat-22 has six sectors. It features banking stocks, CPSEs such as Nalco, ONGC. SUUTI's holding in ITC has also been included. Unlike the earlier ETF, in Bharat-22, the weights of the constituent companies can be changed by the manager.

Methods of Disinvestment of Minority Stake in CPSEs

- Initial Public Offering (IPO) – offer of shares by an unlisted CPSE or the Government out of its shareholding or a combination of both to the public for subscription for the first time.
- Further Public Offering (FPO) – offer of shares by a listed CPSE or the Government out of its shareholding or a combination of both to the public for subscription.

- Offer for sale (OFS) of shares by promoters through Stock Exchange mechanism – method allows auction of shares on the platform provided by the Stock Exchange; extensively used by the Government since 2012.
- Strategic sale – sale of substantial portion of the Government share holding of a central public sector enterprise (CPSE) of upto 50%, or such higher percentage as the competent authority may determine, along with transfer of management control.
- Institutional Placement Program (IPP) – only Institutions can participate in the offering.
- CPSE Exchange Traded Fund (ETF) - Disinvestment through ETF route allows simultaneous sale of GoI's stake in various CPSEs across diverse sectors through single offering. It provides a mechanism for the GoI to monetize its shareholding in those CPSEs which form part of the ETF basket.
- Cross holdings

Use of Disinvestment Proceeds

The proceeds of disinvestment are credited into National Investment Fund (NIF) constituted in November, 2005 and are used for the approved purpose, as decided from time to time.

Presently, the disinvestment proceeds are credited to the existing NIF which is a 'Public Account' under the Government Accounts and the funds would remain there until withdrawn /invested for the approved purposes. The NIF is utilized for the following purposes:

- Subscribing to the shares being issued by the CPSEs on rights basis, so as to ensure that 51% ownership of the Government in CPSEs is not diluted.
- Preferential allotment of shares of the CPSE to promoters as per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 so that Government shareholding does not go down below 51% in all cases where the CPSE is going to raise fresh equity to meet their Capex program.
- Recapitalization of public sector banks and public sector insurance companies so as to strengthen them through further capital infusion towards achieving the Basel III norms.
- Investment by Government in RRBs/IIFCL/NABARD/Exim Bank;
- Equity infusion in various Metro projects;
- Investment in Bhartiya Nabhikiya Vidyut Nigam Limited and Uranium Corporation of India Ltd.
- Investment in Indian Railways towards capital expenditure.

Navaratna, Miniratna and Maharatna Companies

Navaratnas

Economic reforms subject PSEs to market competition. Gloablization makes the competition more intense. To perform in such conditions, PSEs need a level playing field with the private players. Hence, the Navaratna package that gives autonomy to PSEs.Government introduced the navaratna concept in 1997. It granted enhanced autonomy to nine selected PSEs referred to as "Navaratnas". These were IOC, IPCL, ONGC, BPCL, HPCL, NTPC, SAIL, VSNL and BHEL.

IPCL and VSNL were strategically sold to Reliance and Tatas respectively. Eight more CPSEs were made navaratnas since then. Totally, there are 17(2017)

Navratna CPSEs

- Bharat Electronics Limited
- Bharat Petroleum Corporation Limited
- Container Corporation of India Limited
- Engineers India Limited
- Hindustan Aeronautics Limited
- Hindustan Petroleum Corporation Limited
- Mahanagar Telephone Nigam Limited
- National Aluminium Company Limited
- National Buildings Construction Corporation Limited
- NMDC Limited
- Neyveli Lignite Corporation Limited
- Oil India Limited
- Power Finance Corporation Limited
- Power Grid Corporation of India Limited
- Rashtriya Ispat Nigam Limited
- Rural Electrification Corporation Limited
- Shipping Corporation of India Limited

The government has a quantitative system to confer the status of "Navarathna" on PSE. According to the system, every PSE is rated on the following parameters:

- Net Profit to Net Worth
- Total Manpower Cost as a Percentage of Total cost of Production
- Profit before Depreciation ,Interest and Taxes (PBDIT) on Capital Employed
- PBDIT on turnover
- Earning per Share &
- Inter-sectoral performance

To gain Navarathna status, a PSE must score atleast 60 out of 100 based on these parameters.Additionally, a company must first be a miniratna and must have four independent directors on its board before it can be made a navaratna

These navaratnas, subject to certain guidelines, now have freedom to

- incur capital expenditure
- decide upon joint ventures
- set up subsidiaries/offices abroad
- enter into technological and strategic alliances
- raise funds from capital markets (international and domestic)
- enjoy substantial operational and managerial autonomy
- Boards of these PSEs have been broad-based with induction of nonofficial part-time professional directors.

For example, 'Navaratna' status empowers it to invest up to Rs. 1000 cr or 15% of their net worth on a single project without seeking government approval. The overall ceiling on such investment in all projects put together is 30% of the networth of the company.

Miniratna Companies

There are two types of miniratna companies: Type 1 and 2.Together there are 73 such companies. Miniratnas can also enter into joint ventures, set subsidiary companies and overseas offices but with certain conditions.

Category I Miniratna

They are PSEs that have made profits continuously for the last three years and earned a net profit of Rs 30 crores or more in one of the three years. These miniratnas are granted certain autonomy like incurring capital expenditure without government approval up to Rs. 500 crores or equal to their net worth, whichever is lower. There are 48 miniratnas. Bridge & Roof Company (India) Limited was added late in 2010.

Category II Miniratna

This category include those PSEs which have made profits for the last three years continuously and should have a positive net worth. Category II miniratnas have autonomy to incurring the capital expenditure without government approval up to Rs. 300 crores or up to 50% of their net worth whichever is lower. There are 14 such miniratnas: Bharat Pumps & Compressors Limited was added late in 2010.

Maharatnas

The Government introduced Maharatna scheme in February, 2010 with the objective to delegate enhanced powers to the Boards of identified large sized Navratna CPSEs so as to facilitate expansion of their operations, both in domestic as well as global markets.

Eligibility criteria for grant of Maharatna status: - The CPSEs fulfilling the following criteria are eligible to be considered for grant of Maharatna status:-

- Having Navratna status
- Listed on Indian stock exchange, with minimum prescribed public shareholding under SEBI regulations
- An average annual turnover during the last 3 years of more than Rs.25,000 crore
- An average annual net worth during the last 3 years of more than Rs.15,000 crore
- An average annual net profit after tax during the last 3 years of more than Rs.5,000 crore
- Significant global presence or international operations.

Delegation of powers to Maharatna CPSEs :- The Maharatna CPSEs in addition to having Navratna powers have been delegated additional powers in the area of investment in joint ventures/ subsidiaries and human resources development. The Maharatna CPSEs can invest ` 5,000 crore in one project (` 1,000 crore for Navratna CPSEs).

Maharatna CPSEs :- The Government has granted Maharatna status to 7 CPSEs : (i) Bharat Heavy Electricals Limited, (ii) Coal India Limited, (iii) GAIL (India) Limited, (iv) Indian Oil Corporation Limited, (v) NTPC Limited, (vi) Oil & Natural Gas Corporation Limited and (vii) Steel Authority of India Limited. 7.1.4 During the year 2015-16, the Inter Ministerial Committee reviewed the performance of four Maharatna CPSEs, viz. Indian Oil Corporation Limited, GAIL (India) Limited, NTPC Limited and Oil & Natural Gas Corporation Limited.

Ad-hoc Group of Experts (AGE) Report

Empowerment of Central Public Sector Enterprises was set up in 2004. It was headed by Arjun Sengupta. It recommended in 2006

- greater autonomy for Public Sector Units
- central PSUs to have truly independent boards. It has recommended empowering the PSU boards to take decisions about mergers, joint ventures, pricing, exports, appointments, selection of dealers, promotion and transfer of employees, and so on. The ministry concerned should not review the PSU more than twice a year. Supervision should be done by sector specific supervisory boards.
- ministries should not interfere with the functioning of the PSUs under them. Their managements should be accountable to the board and not to the ministry
- government should be given flexibility to divest its stake in PSUs. As long as the government's stake remains above 51 per cent, it should not require Parliament's permission to divest its shares — even in navratnas, miniratnas, and consistently profit-making PSUs. This can be done through a board decision.
- supplementary audit by the Comptroller and Auditor General of India of the PSEs should be an exception rather than rule, as it delays the publishing of audited accounts as required by SEBI.
- reworking of the accountability of the PSEs to Parliament so that the questions raised on their functioning do not compromise sensitive trade data and work as an impediment in functioning as commercial enterprises.

The Government accepted some of the recommendations of AGE relating to enhancement of financial powers of Navratna, Miniratna and other profit-making CPSEs. The remaining recommendations relating to ownership issues, audit of Government companies, Article 12 of the Constitution. Parliamentary accountability, vigilance, management in CPSEs, etc. are under examination.

MOU

The beginning of the policy of Memorandum of Understanding can be traced to the report of the Arjun Sengupta Committee in mid eighties. One of the recommendations of this committee was for the introduction of the system of MOU for measurement of performance of public enterprises. The MOU system was introduced on an experimental basis in 1987-88. It was based on the French system. From 1989-90 the signaling system was adopted and it remains in vogue till the present.

One of the most important differences between the French system and the signaling system relates to the possibility of making an overall judgement on the enterprise's performance in the latter system. In performance contracts belonging to the French system, it was possible to only point out whether a particular target was met or not. This created great difficulty for making an overall judgement regarding enterprise's performance. The signalling system overcomes this problem by adopting the system of "five point scale" and "criteria weight" which ultimately result in calculation of "composite score" or an index of the performance of the enterprise

The MOU system has been adopted as it was felt that PSEs are unable to perform at efficient levels because of multi-point accountability. Also, there was no clarity of objectives. Absence of functional autonomy also hampered their performance.

MOU is a freely negotiated agreement between the public enterprise and the administrative ministry. Under the agreement, the enterprises undertake to achieve the targets set in the agreement at the beginning of the year. The MOU covers both financial performance as well as non-financial performance. Under this system performance of the company is categorized into five categories namely: excellent, very good, good, fair, and poor.

The objectives of the MOU system are to improve the performance of public enterprises by increasing autonomy and accountability of the management; remove the fuzziness in the goals and objectives the enterprise is to pursue through clearly laid down performance targets at the beginning of the year; enable the evaluation of managerial performance through objective criteria and provide a mechanism to reward good performance through performance incentives to stimulate improved performance.

Some Recent Initiatives in Restructuring The PSEs

- Maharatna status to 7 companies
- more companies given navaratna and mini ratna status to improve their performance in the global competitive environment
- ETF
- Niti Aayog given the role to recommend strategic sale etc.

Autonomy for PSEs

Managerial and financial autonomy is important for the PSEs to function well in a market economy where there is severe competition and the companies are also listed on the stock exchanges. Steps for rendering autonomy to the PSEs are essentially two

- Maharatnas
- Navaratna and miniratna status
- MOU
- Disinvestment

(Given above in detail)
Read along with the AGE report given above.

Professionalisation of PSU Boards

- MOU
- outside professionals should be inducted in the boards of PSU in the form of non-official Directors whose number should be at least 1/3 of the Actual strength of the Board
- Under the Navratna/Miniratna package, the board of select PSUs have been professionalised by inducting a minimum of 4 non-official Directors in case of Navratnas and 3 in case of Miniratnas.
- number of Government Directors on the Board should not be more than two

Focus Areas For PSU Restructuring

Tenure of the CEO and Board of Directors:
The managerial problems in the PSU begin with the tenure of CEO and the Board of Directors. The selection, service conditions and the tenure of the Board of Directors is subject to the Government rules and regulations. Unlike the private sector where CEO have almost a decade to nurture the company, in PSU the rules with respect to superannuation tends to focus attention on short term strategies-co-terminus with CEO's tenure. There is, hence a need to provide continuity in the management by appointing CEO and other members in the Board of Directors for longer tenure with representation of shareholders other than GoI Shareholders.

Multiple-Audit

The business decision in PSUs gets influenced by presence of a number of controlling agencies, such as the Ministry, parliamentary committees, CAG, CVC etc. The end result of this is recourse to a risk- adverse approach to business. For example, there is a decision related purchase of second hand equipment where on the spot decision is required and transparent processes such as global bid are not available. It helps the company to save if it can take quick decisions. In some cases there could be loss which needs to be out of the purview of CVC as otherwise it will dampen the decision making process in commercial matters.

Role of Administrative Ministry

It needs to change. Like a shareholder of any other company, the Ministry's role should be limited to contributing as shareholder in AGM/EGM of the companies, and providing it the requisite support. The role of Ministry in day-to-day management through correspondence should be avoided.

Non Commercial Activities

PSUs are expected to function on commercial consideration but are burdened with takeover of some sick/potentially sick units.

Investment in newer units is based on socio-political consideration. This results in non-flexibility of to the company to reorganise its own business. Regularisation of contract labour under article 12 of the Constitution forces PSUs to absorb extra labour without any consideration to the existing manpower strength. PSUs are unable to spin-of loss making units or close operations in those units, which have become operationally unviable.

Niti Aayog and Disinvestment

Finance minister said in his Budget 2016-17 speech that NITI Aayog would identify Public Sector Units for strategic sale. A new policy for management of government investment in Public Sector Enterprises, including disinvestment and strategic sale, was approved to leverage the assets of CPSEs for generation of resources for investment in new projects; encourage CPSEs to divest individual assets like land, manufacturing units, etc to release their asset value for making investment in new projects; for efficient management of investment in CPSEs by addressing issues such as capital restructuring, dividend and bonus shares.

The NITI Aayog was tasked to identify the CPSEs for strategic sale.

DIPAM

The Department of Disinvestment was renamed as Department of Investment and Public Asset Management or 'Dipam'. It is aimed at proper management of Centre's investments in equity including its disinvestment in central public sector undertakings.

The new department has been mandated to "advise the government in the matters of financial restructuring of central public sector enterprises and for attracting investment through capital markets."

Finance Minister announced renaming of the Department of Disinvestment in his budget speech for 2016-17.

The Dipam is a part of work Finance Ministry and it deals with "all matters relating to management of central government investments in equity including disinvestment of equity in central public sector undertakings".

It also deals with "all matters relating to sale of central government equity through offer for sale or private placement or any other mode in the erstwhile central public sector undertakings."

All other post disinvestment matters, including those relating to and arising out of the exercise of call option (buying more shares of the same unit by the one who bought the majority stake already as in Balco) by the strategic partner in the erstwhile central public sector undertakings, shall continue to be handled by the administrative ministry or department concerned, where necessary, in consultation with the Dipam.

Purchase Preference Policy

Government gives purchase preference in supply of goods and services to the Government Departments, Autonomous bodies and other PSEs if the price quoted by the supplying CPSE is within 10% of the lowest valid bid price, other things being equal. It helps support the PSEs.

INFRASTRUCTURE

Infrastructure is the foundation for economic growth. It includes both the physical, natural and organizational structures which are the preconditions for sustainable economic development: roads, ports, airports, bridges, railways, water supply, sewers, power, telecommunications, irrigation etc.

Infrastructure facilitates the production of goods and services; distribution of final products to markets as well as basic social services such as schools and hospitals.

Infrastructure can be physical or social or natural. It can be hard or soft. "Hard" infrastructure refers to the large physical networks necessary for the functioning of a modern industrial nation, whereas "soft" infrastructure refers to all the institutions (organisations) which are required to maintain the economic system, health, and cultural and social standards of a country, such as the financial system, the education system, the health care system, the system of government, and law enforcement.

Various types of Infrastructure

Transport infrastructure

- Road and highway networks, including structures (bridges, tunnels, culverts)
- Mass transit systems (Commuter rail systems, subways, tramways, and bus transportation)
- Railways (rail track, railway stations), level crossings, signalling and communications systems
- Canals and navigable waterways (inland waterways)
- Seaports
- Airports

Adequate transportation infrastructure is a essential for economic development and growth. Apart from facilitating cheaper and more efficient movements of goods, people and thus enabling growth, it also helps in national integration. Transportation infrastructure impacts the distribution of economic activity and development across regions; helps business to multiply; consumer welfare; productivity enhancement; balanced regional development; employment; demand; and makes the government access higher levels of fiscal resources to direct and indirect taxes. It is seen in the case of Golden Quadrilateral and PMGSY- the latter accounting for benefits for agriculture too.

Energy infrastructure

- Electrical power network, including generation plants, electrical grid, substations, and local distribution.
- Natural gas pipelines, storage and distribution terminals
- Petroleum pipelines
- Specialized coal handling facilities for washing, storing, and transporting coal.
- Renewable energy infrastructure like wind, solar power , hydro power, geothermal power and biomass or biofuel facilities
- Coal mines, oil wells and natural gas wells (may also be classified as being part of the mining and industrial sector of the economy)

Water management infrastructure

- Drinking water supply
- Sewage collection, and disposal of waste water
- Drainage systems
- Major irrigation systems (reservoirs, irrigation canals)
- Major flood control systems

Communications infrastructure

- Postal service
- Telephone networks (land lines) including telephone exchange systems
- Mobile phone networks
- Television and radio transmission stations
- Cable television physical networks including receiving stations and cable distribution networks
- The Internet, including the internet backbone
- Communications satellites
- Undersea cables
- Major private, government or dedicated telecommunications networks, such as those used for internal communication and monitoring by major infrastructure companies, by governments, by the military or by emergency services, as well as national research and education networks

Solid waste management

- Municipal garbage and recyclables collection
- Solid waste landfills
- Solid waste incinerators and plasma gasification facilities (Plasma gasification is a process which converts organic matter into synthetic gas, electricity, and slag using plasma.)
- Materials recovery facilities
- Hazardous waste disposal facilities

Information technology (IT) infrastructure

IT components that are the foundation of an IT service- physical components (computer and networking hardware and facilities), various software and network components.

Soft infrastructure

Soft infrastructure means the body of rules and regulations governing the various systems, the financing of these systems, as well as the systems and organizations by which highly skilled and specialized professionals are trained, advance in their careers by acquiring experience, and are disciplined if required by professional associations (professional training, accreditation and discipline).

Unlike hard infrastructure, the essence of soft infrastructure is the delivery of specialized services to people.

Economic infrastructure

- The financial system, including the banking system, financial institutions, the payment system, exchanges, the money supply, financial regulations, as well as accounting standards and regulations

- Major business logistics facilities and systems, including warehouses as well as warehousing and shipping management systems
- Manufacturing infrastructure, including industrial parks and special economic zones, plus the public safety, zoning and environmental laws and regulations that govern and limit industrial activity, and standards organizations
- Agricultural, forestry and fisheries infrastructure, including specialized food and livestock transportation and storage facilities

Social infrastructure

- The health care system, including hospitals, the financing of health care, including health insurance,
- The educational and research system
- Skilling bodies
- Social welfare systems, including both government support and private charity for the poor, for people in distress or victims of abuse
- Sports and recreational infrastructure, such as parks, sports facilities, the system of sports leagues and associations
- Cultural infrastructure, such as museums, libraries, theatres, studios, and specialized training facilities
- Business travel and tourism infrastructure

Critical infrastructure

It consists of assets that are essential for the functioning of an economy:

- electricity generation, transmission and distribution;
- gas production, transport and distribution;
- oil and oil products production, transport and distribution;
- telecommunication;
- water supply (drinking water, waste water/sewage, stemming of surface water (e.g. dikes and sluices));
- agriculture, food production and distribution;
- public health (hospitals, ambulances);
- transportation systems (fuel supply, railway network, airports, harbours, inland shipping);
- financial services (banking, clearing);
- Security services (police, military).

National Critical Information Infrastructure Protection Centre (NCIPC)

NCIIPC is an organisation of the Government of India created under Sec 70A of the Information Technology Act, 2000 (amended 2008) in 2014. Based in New Delhi, India, it is designated as the National Nodal Agency in respect of Critical Information Infrastructure Protection.The Information Technology Act, 2000 defines Critical Information Infrastructure (CII) as "... those computer resource, the incapacitation or destruction of which, shall have debilitating impact on national security, economy, public health or safety" .NCIIPC broadly identified the following as 'Critical Sectors' :

- Power & Energy
- Banking, Financial Services & Insurance
- Telecom
- Transport

- Government
- Strategic & Public Enterprises

NCIIPC functions and duties

- National nodal agency for all measures to protect nation's critical information infrastructure.
- Protect and deliver advice that aims to reduce the vulnerabilities of critical information infrastructure, against cyber terrorism, cyber warfare and other threats.
- Identification of all critical information infrastructure elements for approval by the appropriate Government for notifying the same.
- Provide strategic leadership and coherence across Government to respond to cyber security threats against the identified critical information infrastructure.
- Coordinate, share, monitor, collect, analyze and forecast, national level threat to CII for policy guidance, expertise sharing and situational awareness for early warning or alerts. The basic responsibility for protecting CII system shall lie with the agency running that CII.
- Assisting in the development of appropriate plans, adoption of standards, sharing of best practices and refinement of procurement processes in respect of protection of Critical Information Infrastructure.
- Evolving protection strategies, policies, vulnerability assessment and auditing methodologies and plans for their dissemination and implementation for protection of Critical Information Infrastructure.
- Undertaking research and development and allied activities, providing funding (including grants-in-aid) for creating, collaborating and development of innovative future technology for developing and enabling the growth of skills, working closely with wider public sector industries, academia et al and with international partners for protection of Critical Information Infrastructure.
- Developing or organising training and awareness programs as also nurturing and development of audit and certification agencies for protection of Critical Information Infrastructure.
- Developing and executing national and international cooperation strategies for protection of Critical Information Infrastructure.
- Issuing guidelines, advisories and vulnerability or audit notes etc. relating to protection of critical information infrastructure and practices, procedures, prevention and response in consultation with the stake holders, in close coordination with Indian Computer Emergency Response Team and other organisations working in the field or related fields.
- Exchanging cyber incidents and other information relating to attacks and vulnerabilities with Indian Computer Emergency Response Team and other concerned organisations in the field.
- In the event of any threat to critical information infrastructure the National Critical Information Infrastructure Protection Centre may call for information and give directions to the critical sectors or persons serving or having a critical impact on Critical Information Infrastructure.

NCIIPC functions under the guidance of National Technical Research Organization (NTRO). NCIPC is the nodal agency which coordinates the cyber security operations related to critical infrastructures in India. NCIPC will set up sectoral Computer Emergency Response Teams (CERTs) and will also install sensors on critical systems for getting real-time information regarding cyber attack of any kind for preparing a quick response.

Urban infrastructure

Urban or municipal infrastructure refers to hard infrastructure systems owned and operated by municipalities, such as streets, water distribution, and sewers. It may also include some of the facilities associated with soft infrastructure, such as parks, public pools and libraries.

Green infrastructure

Green infrastructure is a concept that highlights the importance of the natural environment in decisions about land use planning. In particular there is an emphasis on the "life support" functions provided by a network of natural ecosystems, with an emphasis on interconnectivity to support long-term sustainability. Examples include green belts, wild life sanctuaries; eco sensitive regions, Tiger, lion, and elephant reserves; bird sanctuaries; western ghats being conserved etc.

Natural infrastructure

It may be used synonymously with green infrastructure. Natural infrastructures are planned and managed natural or semi-natural systems, which can provide benefits : forests, agricultural lands, estuaries, coastal landscapes and wetlands.These solutions comprises coastal ecosystem (mangroves, coral reefs) for coastline protection from storms; watershed restoration (by sustainable land management) for water quality regulation; afforestation for carbon sequestration; habitat restoration or conservation for pollination; phyto-remediation to rehabilitate contaminated soil and water. In India, about 800 million people were affected by around 288 weather-related disasters during 1995-2015. In order to avoid risk and damage, and to build resilience to these disasters, natural infrastructure solutions are increasingly being considered and implemented. It helps in achievement of Sustainable Development Goals (SDGs) and the Paris Climate Agreement targets Intended Nationally Determined Contributions (INDCs).

Financing Infrastructure

Investment in infrastructure is part of the capital accumulation required for economic development and has an impact on socioeconomic measures of welfare. Traditionally, infrastructure development used to occur through the public sector. However, given the scarcity of public resources and the need to shift scarce public resources into health and education, efforts have been made to induct private participation in the development of infrastructure.

Currently, the source of financing varies significantly across sectors. In India, some are monopoly: railways and nuclear power. Some sectors are dominated by government spending, others by overseas development aid (ODA) and yet others by private investors. PPP is emerging as the dominant model. Debt and equity are, like anywhere else, the ways of raising resources.

The total investment in infrastructure sectors in the Twelfth Plan(2012-17) is estimated to be Rs.55.7 lakh crore.The share of private investment in the total investment in infrastructure was 48 per cent during the Twelfth Plan .

Infrastructure may be owned and managed by governments or by private companies, such as sole public utility or railway companies. Or it can be a joint operation of construction, management and ownership (PPP) in which there are many models as we will see ahead.

PPPs

Governments in most developing countries face the challenge to meet the growing demand for new and better infrastructure services. As available funding from the traditional sources and capacity in the public sector to implement many projects at one time remain limited, governments have found that partnership with the private sector is an attractive alternative to increase and improve the supply of infrastructure services.

The partners in a PPP, usually through a legally binding contract or some other mechanism, agree to share responsibilities related to implementation and/or operation and management of an infrastructure project. This collaboration or partnership is built on the expertise of each partner that meets clearly defined public needs through the appropriate allocation of:

- Resources
- Risks
- Responsibilities, and
- Rewards

The availability of high-quality infrastructure and the overcoming of India's infrastructure deficit is crucial to attaining and sustaining rapid growth that generates the gainful jobs. It is urgently required for India to grow rapidly and generate a demographic dividend.The Government of India identified public–private partnerships (PPP) as a way of developing the country's infrastructure for its economic growth. PPPs in infrastructure represent a valuable instrument to speed up infrastructure development in India. Since first half of the 2000s, PPPs were successfully implemented. India offers today the world's largest market for PPPs.

PPPs have become attractive to governments for infrastructure development as:

- They can enhance the supply of much-needed infrastructure services.
- They may not require any immediate cash spending. They provide relief from the burden of the costs of design and construction.
- They allow transfer of many project risks to the private sector.
- They promise better project design, choice of technology, construction, operation and service delivery.
- Rationalize tariff for services like power and roads without any resistance from public

Kelkar Committee defines PPPs as : Public Private Partnerships (PPPs) in infrastructure refer to the provision of a public asset and service by a private partner who has been conceded the right (the "Concession") for the purpose, for a specified period of time, on the basis of marketdetermined revenue streams, that allow for commercial return on investment.

There are many models of PPPs being followed in India.

Build–operate–transfer (BOT) or build–own–operate–transfer (BOOT) is a form of project financing in which a private entity receives a concession from the private or public sector to finance, design, construct, own, and operate a facility stated in the concession contract. This enables the concessionaire to recover investment, operating and maintenance expenses in the project. Due to the long-term nature of the arrangement, the fees are usually raised during the concession period.

BOT has uses in infrastructure projects as a form of public–private partnership. In the BOT project, Government delegates to a private sector entity to design, build infrastructure and to operate and maintain these facilities for a certain period. During this period the private party is entitled to retain all revenues generated by the project. The facility will be then transferred to government at the end of the concession agreement.

V-BOT

In a BOT project, there are instances where the contractor realizes the investment and profit ahead of the contract period and there are cases where he does not realize even after the contract period is over. There should thus be flexibility.

The government is considering offering a "rolling contract" for road development that will have the above said flexibility. NHAI will reserve the right to take over the project to stem public opposition over "super profits". The model—variable build operate and transfer (V-BOT) .There have been several instances of protests in states including Delhi, UP and Maharashtra against the toll collection by the concessionaires for many more years than necessary. Under this model, the projects will be bid out on the basis of total cost (including construction, financing, operation and maintenance) for a defined contract period. The lowest bidder will get the project and will build, operate and collect toll. If toll collection increases beyond the projection due to high traffic growth, the contractor will recover the cost before the quoted period and NHAI will terminate the contract. NHAI will then collect toll to recover the land cost. When that amount is recovered, toll will be cut by 40%. All such projects will compulsorily have 100% electronic toll collection, installation of automatic traffic count and classifier system, video image detection and other systems.

Delhi-Noida Direct (DND) Flyway

Allahabad High Court in 2016 scrapped the toll levied on commuters using the Delhi-Noida Direct (DND) Flyway, a major traffic artery connecting southeast Delhi with Noida across the Yamuna in Uttar Pradesh. Noida Toll Bridge Company Ltd (NTBCL) is the special purpose vehicle to develop, construct, operate and maintain DND.The Allahabad High Court order was caused by a public interest petition filed by a body of Noida residents. The court considered several aspects of the case before ruling that NTBCL had "recovered all reasonable returns" on its investment, and was no longer entitled to collect toll.Supreme Court upheld the same in 2017.

Concession

A concession or concession agreement is a grant of rights, land or property by a government, local authority, corporation, individual or other legal entity.Public services such as roads, hospitals may be operated as a concession. In the case of a public service concession, a private company enters into an agreement with the government to have the exclusive right to operate, maintain and carry out investment in a public utility for a given number of years.

In concessions, payments can take place both ways: concessionaire pays to government for the concession rights and the government may pay the concessionaire, which it provides under the agreement to meet certain specific conditions. For example, hybrid annuity model or VGF. Usually, such payments by the government may be necessary to make projects commercially viableand/or reduce the level of commercial risk taken by the private sector, particularly in a developing or untested PPP market. Typical concession periods range between 5 to 50 years.

A BOOT structure differs from BOT in that the private entity owns the works. During the concession period the private company owns and operates the facility with the prime goal to recover the costs of investment and maintenance while trying to achieve higher margin on project. The private entity has additional rights being owner- raise loans against it as collateral.

Hybrid-Annuity Model (HAM)

HAM was introduced in 2016 essentially for road infrastructure projects. About 30 highways projects have been awarded under HAM by the National Highway Authority of India (NHAI) at a total cost of about Rs.28,000 crore. Half the projects awarded in 2016- 17 were under HAM.

As per HAM model, 40% of the capital cost quoted is paid upfront by government while the remaining 60% of the cost will be paid over the life of the project as annuities. That is the meaning of "hybrid". It must be differentiated from VGF where the gap is given as grant. In HAM, the initial payment is adjusted from annuities.

HAM is a financial innovation in funding for infrastructure that emerged from a practical need. The BOT model was not considered viable by the private players to invest as the private player had to fully mobilise finances and bear the risk. Banks were unwilling to lend to these projects as they had burnt their fingers and accumulated NPAs. Risks were unevenly distributed getween government and private builder as developers had to take the entire risk of low passenger traffic. Projections on traffic go wrong affecting returns. Hence the reluctance to commit large sums of money in such models.

It helps by distributing the risk between developers and the Government. The annuity payment structure means that the developers are not taking traffic risk all by themselves. From the Government's perspective, it starts road projects by investing a portion of the project cost.

Government has many incentives: builds roads, enables businesses, boosts tax buoyancy as it triggers economic growth, land prices go up in the vicinity that helps the owners etc. There is less traffic congestion. HAM projects are also being tested in urban infra developments such as metro rail projects.

In 2017, Hybrid Annuity based PPP model was adopted for the first time in the country in sewage management sector in two major cities in Ganga river basin - Varanasi and Haridwar.

TOT

The government approved a model under which toll highways operated by the National Highways Authority of India (NHAI) for over two years will be leased out to entities which will collect toll and operate the project for a specified duration, in a return for an upfront fee. The money raised will be used to invest in developing more highways.

GOI identified 75 national highway projects adding up to 4,500 km for the toll-operate-transfer (TOT) model. The overall annual toll collected from these projects is about Rs2,700 crore. Projects under the TOT model will be awarded through international competitive bidding where foreign funds can also take part.

TOT model will bring new investments to the highways sector. Under the TOT model, the investor will collect toll and be responsible for operation and maintenance of the project.

Proceeds from TOT auctions will free up valuable taxpayer capital and augment resources for new infrastructure projects.

The model is likely to help NHAI raise capital to fund road projects based on the engineering, procurement and construction (EPC) and hybrid annuity models. It will also be an opportunity for pension funds and infrastructure investors to invest in India's road sector profitably.

Swiss Challenge

Under the Swiss challenge method any party with credentials can submit a development proposal to the government. That proposal will be put online and a second party can suggest to improve and better that proposal.

In case the original proposer is able to match the more attractive and competing counter proposal, the project will be awarded to him. An expert committee will decide the best proposal. The Swiss challenge method is one that has been used in India by various states including Karnataka, Andhra Pradesh, Rajasthan, Madhya Pradesh, Bihar, Punjab and Gujarat for roads and housing projects.

This method can be applied to projects that are taken up on a PPP basis , EPC etc. The Union cabinet gave its approval to redevelop 400 railway stations using the Swiss challenge method. It helps in passenger service, modernization, mega investments, job creation etc.

The advocates of Swiss Challenge cite the following benefits: efficiency in the use of capital; good citizen services; transparency; genuine competition; cost saving fro the government ;speed up the process of awarding projects.

The critics of this method point to absence of real competition as in reality unsolicited bidder may not be in reality unsolicited because of the politics-business nexus.

In an age of crony capitalism, companies may employ questionable means to win mega projects. Thus this method has a potential to encourage large-scale corruption and erosion of precious public resources.

Effective legal and regulatory regime is necessary to make the most of the Swiss Challenge method.

Kelkar Committee report on 'Revisiting and Revitalising the PPP model of infrastructure development,' presented GOI in 2015 discouraged the government from following the 'Swiss Challenge' model of auctioning infrastructure projects.

Viability Gap Funding

The VGF Scheme was notified in 2006 to enhance the financial viability of competitively bid infrastructure projects, which are justified by economic returns, but do not pass the standard thresholds of financial returns- that is their commercial viability is not good to be taken up by the private parties Under the scheme, grant assistance of up to 20 per cent of capital costs is provided by the Central Government to PPP projects undertaken by any Central Ministry, State Government, statutory entity or local body, thus leveraging budgetary resources to access a larger pool of private capital. An additional grant of up to 20 per cent of project costs may be provided by the sponsoring Ministry, State Government or project authority.

UDAN (Ude Desh ka Aam Naagrik) is an ambitious regional air connectivity scheme for which GOI set up a trust for disbursing viability gap funds to the participating airlines. Airports Authority of India (AAI) is the nodal agency for the scheme that aims to connect un-served as well as under-served airports and make flying affordable for the masses. As at least half of the seats in UDAN flights are to be offered at subsidised fares, the participating carriers would be provided a certain amount of Viability Gap Funding (VGF) -- an amount shared between the Centre and the state concerned.

Take out financing

Banks attract deposits whose average life is about 3-5 years and so can not be lent to finance infrastructure. But take out financing can be helpful as banks lend long term but after 3-5 years, a firm like India Infrastructure Finance Company Limited (IIFCL) takes out the account from the banks books. It pays the bank what the borrower owes it and collects the money from the borrower. It was introduced in 2009-10.Takeout financing is an accepted international practice of releasing long-term funds for financing infrastructure projects. It can be used to effectively address Asset-Liability mismatch of commercial banks arising out of financing infrastructure projects and also to free up capital for financing new projects.

Objectives of the Takeout Finance Scheme:

- To boost the availability of longer tenor debt finance for infrastructure projects.
- To address issues of asset-liability mismatch
- To expand sources of finance for infrastructure projects by facilitating participation of new entities i.e. medium / small sized banks, insurance companies and pension funds.

India Infrastructure Finance Company Limited (IIFCL)

IIFCL was incorporated in 2006 for providing long-term loans for financing infrastructure projects that typically involve long gestation periods. IIFCL provides financial assistance both through direct lending to project companies and by refinancing banks and financial institutions as also take out financing. IIFCL raises funds from both domestic and overseas markets on the strength of government guarantees.

IIFCL is a wholly-owned Government of India company.

The sectors eligible for financial assistance from IIFCL broadly include transportation, energy, water, sanitation, communication, social and commercial infrastructure.

IIFCL has been registered as a NBFC with RBI.

The authorized and paid up capital of the company (2017) stood at Rs 6,000 Crore and Rs 4,002 Crore, respectively.

By 2017, IIFCL made cumulative gross sanctions of Rs 77,000 Crore to 442 projects under direct lending and cumulative disbursements of Rs 56,000 Crore under Refinance and Takeout Finance.

Plug and play model

The Union Budget 2015-16 proposed a 'plug-and-play' model for big-ticket infrastructure projects such as power plants, airports and roads, where all regulatory clearances will be put in place before they are awarded to private developers through a transparent auction.

GOI announced plans to set up five ultramega power projects (UMPPs) of 4,000 mw each under the 'plug-andplay' model. This means winners of the contract can start implementing the project immediately, without worrying about all the regulatory clearances and coal or gas linkages — the causes for so many stalled projects in the country. This should unlock investments to the extent of Rs 1 lakh crore. Government will consider plug-and-play model for other projects such as roads, ports, rail lines and airports as well.

It will help the government attract foreign and domestic investments into much-needed infrastructure projects as it will significantly cut down project implementation time and cost and time overruns.

Infrastructure Debt Fund

Infrastructure projects are capital intensive and have long payback periods, and, therefore, require long-term funds at comparatively low costs. Infrastructure projects in India are financed mainly by commercial banks and NBFCs. The present bond market lacks depth to address the needs for a long-term debt. With a view to overcoming these shortcomings, Infrastructure Development Funds (IDFs) are being set up for channelising long-term debt from domestic and foreign pension and insurance funds, as well as from other sources. The Reserve Bank of India, and the Securities and Exchange Board of India have already laid down regulatory framework for the IDFs.

Setting up of Infrastructure Debt Funds (IDFs) was announced in the Union Budget for 2011-12. An IDF can be structured either as a company or as a trust. If set up as a trust, it would be regulated by SEBI under the Mutual Fund Regulations. If set up as a company, the IDF would be structured as a Non-Banking Finance Company (NBFC) and will be under the regulatory oversight of RBI. Guidelines with enabling provisions have already been issued by the Reserve Bank of India and SEBI. By 2017, three infra debt funds have been set up through the NBFC route and three through the MF route.

An IDF-NBFC would issue either rupee or dollar denominated bonds to mobilise money to be invested in infrastructure PPPs.

Establishment of Infrastructure Debt Fund through PPP model is gaining ground in India. Three IDFs set up through the NBFC route — L&T IDF, India Infradebt and IDFC IDF— have grown galloped from ₹600 crore about in 2015 to over ₹9,000 crore in 2017-18.

Infradebt Limited fund is jointly promoted by ICICI Bank, Bank of Baroda, Life Insurance Corporation (LIC) and Citicorp Finance (India).

Infrastructure Investment Trust (InvITs)

Infrastructure Investment Trust (InvITs) is like a mutual fund, which enables direct investment of small amounts of money from individual/institutional investors in infrastructure to earn income as return. InvITs work like mutual funds or real estate investment trusts (REITs). InvITs can be treated as the modified version of REITs designed to suit the specific circumstances of the infrastructure sector. They are regulated by SEBI.

Masala Bonds

(discussed elsewhere)

Engineering, Procurement, Construction (EPC) Contract and Turnkey

Developed countries are preferring Engineering, Procurement and Construction (EPC) contracts where the contractor is responsible for design and construction on a turnkey basis and for a fixed price. Turnkey is a traditional public sector procurement model for infrastructure facilities. Generally, a private contractor is selected through a bidding process. The private contractor designs and builds a facility for a fixed payment. The contractor assumes risks involved in the design and construction phases. This type of private sector participation is also known as Design-Build.Both EPC and Turnkey projects for general purposes are similar.

Lease

In this category of arrangement, the operator (the leaseholder) is responsible for operating and maintaining the infrastructure facility (that already exists) and services, but generally the operator is not required to make any large investment. However, often this model is applied in combination with other models such as build- operate-transfer. Under a lease, the operator retains revenue collected from customers/users of the facility and makes a specified lease fee payment to the contracting authority. Generally, the government undertakes the responsibility for investment and thus bears investment risks. The operational risks are transferred to the operator.

Suitability and which model to select

Each model has its own pros and cons and can be suitable for achieving the major objectives of private-private partnership to a varying degree. Special characteristics of some sectors and their technological development, legal and regulatory regimes, and public perception about the services in a sector can also be important factors in deciding the suitability of a particular model of PPP.

There is no single PPP model that can satisfy all conditions.

A typical PPP structure can be quite complex involving contractual arrangements between a number of parties, including the government, project sponsor, project operator, financiers, suppliers, contractors, engineers and customers. The creation of a separate commercial venture called a Special Purpose/Project Vehicle (SPV) is a key feature of most PPPs. The SPV is a legal entity that undertakes a project and negotiates contract agreements with other parties including the government.

SPV has many advantages. Protected finance is available. A project may be too large and complicated to be undertaken by one single investor considering its investment size, management and operational skills required and risks involved. In such a case, the SPV mechanism allows joining hands with other investors who could invest, bring in technical and management capacity and share risks, as necessary.The government may also contribute to the long-term equity capital of the SPV in exchange of shares. For example, GSTN.

Sometimes, governments want to ensure a continued interest (with or without controlling authority) in the management and operations of infrastructure assets such as a port or an airport particularly those which have strategic importance, or in assets that require significant financial contribution from the government. In such a case, a joint venture may be established. A joint venture is an operating company owned by a government entity and a private company (or multiple companies including foreign companies if permitted by law), or a consortium of private companies.

Other than its strategic, financial and economic interest, the government may also like to directly participate in a PPP project. The main reasons for such direct involvement may include:

- To hold interest in strategic assets;
- To address political sensitivity and fulfil social obligations;
- To ensure commercial viability of the project;
- To provide greater confidence to lenders; and
- To have better insight to protect public interest.

PPP in Highways

The National Highway network of the country spans about 70,548 km. The National Highway Development Project (NHDP), covering a length of about 54,000 km of highways, is India's largest road development programme in its history. The government has encouraged increased private sector participation in upgrading the arterial road network of the country to world class standards. More than 60 per cent of the estimated investment requirement is expected to be financed through PPP. With several key projects on the anvil spanning a length of about 45,000 km (including six-laning of four-laned roads, expressways and port connectivity projects) and a large number of projects in States, there is great reliance on PPPs. Expressways are the highest class of roads in the Indian road network. They are six or eight-lane highways.Under Bharatmala project(2017), over 83,000 km of national highways will be constructed at an estimated investment of Rs 7 lakh crore by 2022.Private participation through public private partnership (PPP) of about Rs 1 lakh crores.

PPP in Civil Aviation

(Udaan given elsewhere)

PPP in Urban Infrastructure

Private sector participation needs to be encouraged in urban infrastructure sectors like water supply and sewerage and solid waste management. In urban transport, private sector can provide more efficient transport services, construct and maintain modern bus terminals with commercial complexes, over bridges, city roads and so on. PPP initiatives are also being undertaken to develop metro rail systems in Indian cities.

Hyderabad Metro Rail Project

Hyderabad Metro Rail Project on PPP mode, being developed on Design, Build, Finance, Operate and Transfer (DBFOT) mode. The project was awarded to the successful bidder for a VGF provided by the Central Government while the remaining investment will be made by the concessionaire. This is the single largest private investment in a PPP project in India. It is also one of the largest metro rail projects built and operated by a private entity anywhere in the world. The project demonstrates how large volumes of private capital can be deployed in public projects in a transparent, efficient and competitive manner. The concession has been awarded on the basis of the Model Concession Agreement for Urban Transit developed by GOI.

The Mumbai Monorail is a monorail system in the city of Mumbai. The project is being implemented by Mumbai Metropolitan Region Development Authority (MMRDA), with a consortium of Larsen & Toubro (L&T) and a Malaysian infrastructure firm Scomi Engineering. The system started commercial operation after partially opening its Phase 1 to the public in 2014. Upon the completion of entire Phase 1 in mid-2017, the Mumbai Monorail becomes the fifth-largest monorail system in the world.

PPP in Ports

The government has encouraged private sec- tor participation in port development and operations. Foreign direct investment up to 100 per cent is permitted under the automatic route for port development projects. Private investment has been envisaged on PPP basis in ports of Kolkata, Haldia, Paradip, Vizag, Ennore, Chennai, Tuticorin, Cochin, New Mangalore, Mormugao, Mumbai, JNPT and Kandla.

PPPs in Social Sectors

The Twelfth Plan (2012-17) lays special emphasis on the development of social sectors in view of their impact on human development and quality of life, especially of the underprivileged sections. The physical targets set in the Plan cannot be met out of public resources alone. It is, therefore, imperative that resources have to be attracted from the private sector to ensure that targets, in physical and financial terms, are met by the end of the Twelfth Plan period.

In the social sectors, it may not be possible to adopt the user-charge-based concessions, although they may not be completely ruled out. However, concessions which would provide reimbursement of service costs could attract considerable private investment. The main advantages of adopting the PPP approach in the social sectors would be enhanced investment, reduction in time and cost over-runs, improvement in efficiencies and better quality of performance.

PPP in Education

A scheme for setting up 2,500 schools under PPP mode was rolled out in the Twelfth Plan. The purpose of the scheme is to meet the government's objective of establishing world-class schools for providing quality education to underprivileged children who cannot afford to pay the tuition fee that good private schools charge. It is expected that the scheme will help in creating capacity for providing quality education to 40 lakh children, out of which 25 lakh will be from the underprivileged category.

The respective rights and obligations of the private entity and the government will be codified in an agreement with the former undertaking to deliver the agreed service on the payment of a charge by the government. Recurring tuition support would be provided for up to 1,000 students from under privileged categories at par with the amount that the Central Government spends on a student in Kendriya Vidyalaya. There would be no capital support and land would have to be procured by the private entity. Infrastructure support shall be made available by the government for the under- privileged students at the rate of 25 per cent of the recurring tuition support. The concession would be for a period of 10 years.

The scheme for 2,500 PPP schools should be viewed as an opportunity to evolve innovative ways to empower and enable non-government players to engage in providing world-class education, especially to children from low-income families. The objective should be to combine the respective strengths of the public and private sectors to complement each other in pursuit of the shared goal of good education for all. In particular, adoption of the PPP mode would lead to rapid expansion of access to world-class education by low-income families.

In 2012, GOI approved a scheme for setting up 20 IITs in PPP mode with an overall outlay of Rs 2,800 crore.While land for the purpose was made available free of cost by state governments concerned, an IIT was established at a capital cost of Rs 128 crore each to be contributed in ratio of 50:35:15 by centre, state and industry partner respectively.

Areas that come under PPP might include almost every aspect of education, including evaluation and implementation, ownership, management, funding, running of institutions, academic aspects, special education programmes, like bridge courses, teacher training services, extra academic aspects, examinations, including entrance examinations, support services, hostels, healthcare, transport, maintenance, security, and so on, though policy formulation is normally considered as an exclusive prerogative of the state. In recent years several hybrid partnerships have also evolved, involving new combinations and permutations of state and non-state sectors engaged in a range of activities in education.

Criticism: Most partnerships of the recent period are based on market-oriented logic, while many models prevalent during earlier periods were not so, and they were also not described as PPP models. There is a main difference between the earlier models and the recent ones. The government was interested in PPP, when it proposed, for example, university-industry collaborations, essentially for academic reasons, to improve the relevance of curriculum, increase employability of graduates etc. Nowadays, the main objective of proposing PPP is to raise private funds and save public resources.

PPP models do not feel the need to view education, as a social good, a public good and a social merit good; as distinct from production of normal commercial goods and infrastructure. It is widely felt that as a result, PPP adversely influences the publicness of education. PPP then may lead to gradual or rapid shrinking of the state sector and an expansion of private sector which may eventually emerge as the sole player in education displacing public sector altogether.

In other words, public-private partnerships often end in favour of privatisation of Education and diminution of the role of thegovernment.

Table 1. PPP an Incompatible Partnership: Conflicting Interests of the Public and Private Players in Education

	State/Public	*Market/Private*
Nature & purpose of education	Social good	Individual gain
Motivation	Service	Profit
Main Concern	Knowledge	Skills
Area of interests	Generic	Specific
Duration of interest	Long term	Short term
Team effort	Rarely	Always
Research	Publish/public good	Strict confidential/private good
Time Schedule	Flexible	Rigid
Nature of Universities	Diversity	Uniformity
Relevance	Society	Market

Source: Jandhyala B G Tilak

PPP in Health Care Services

Several State Governments are experimenting with delivery of health services through different models. Planning Commission also considered a scheme for setting up secondary and tertiary care hospitals through PPPs at various District Headquarters. The principal objective of the scheme is to create a health care delivery mechanism comprising multi-specialty hospital to meet the growing health care needs of the poor, and for supplementing human resources in the sector by setting up nursing schools and medical colleges.

Niti Aayog: Public Private Partnership for Non-Communicable Diseases (NCDs) in District Hospitals: Draft Guidelines 2017

National Health Policy, 2017 advocates the case of increased role for private sector in the urban areas: "Given the large presence of private sector in urban areas, the policy recommends exploring the possibilities of developing sustainable models of partnership with for profit and not for profit sector for urban health care delivery."

Niti Aayog and the Union ministry for health and family welfare have proposed a model contract to increase the role of private hospitals in treating non-communicable diseases in urban India. The agreement, which has been shared with states for their comments, allows private hospitals to bid for 30-year leases over parts of district hospital buildings and land to set up 50- or 100-bed hospitals in towns other than India's eight largest metropolises.

According to the model contract, the district hospitals will need to share their back-end services such as blood banks and ambulance services with the private players. The state government could also provide part of the funds needed by these private players to set up the new hospitals. The district health administration will ensure referrals for treatment from primary health centres, community health centres, disease screening centres and other government health programmes and ventures are made to these private hospitals.The World Bank was engaged as "technical partner" to prepare the document. Under the model contract, these private hospitals will provide secondary and tertiary medical treatment for cancer, heart diseases and respiratory tract ailments at prices that are not higher than those prescribed under government health insurance schemes.

The rationale for coming up with this model is the fact that these three diseases do account for almost 35-40 per cent of total mortality in the country. So attention to them is not misplaced. It is also a fact that three-quarters of the specialists, equipment and beds are in the private sector. Partnership with them is therefore inevitable. Given below are the arguments of the proponents summarized by Amitabh Kant of Niti Aayog and opponents as presented by Sujata Rao , former Health Secretary,GOI.

Pros

The for the PPP is justified on the following grounds:

- rampant absenteeism of doctors — ranging from 28 per cent to 68 per cent in different states.
- The increase in government expenditure to 2-2.5 per cent of GDP for the expansion of public health services fails to fructify, and has hovered in the range of 0.9-1.3 per cent from1990 till date.
- Community Health Centres report a 65 per cent vacancy rate of specialists since governments are simply unable to attract and retain talent.

- private sector continues to grow at 15 per cent per annum, accounting for 58 per cent of rural and 68 per cent of urban in-patient care with 80-90 per cent of health facilities and a five-fold higher doctor density.
- Non-communicable diseases account for 60 per cent of the premature mortality in India and cardiovascular diseases, pulmonary diseases, cancer, as well as hypertension, diabetes and stroke are among the leading killers, accounting for four of the top five causes of death
- The aim is to ensure that district hospitals provide basic services for the diagnosis and treatment of NCDs at affordable rates or free of cost for those patients for whom the government chooses to cover such costs through insurance or through budgetary grants. This will help decongest tertiary level health facilities, help in the geographic dispersal of skills required for NCD care and provide quality care to people closer home at a lower cost.

Cons

- one-sidedness of the agreement, with the government bearing all the risk and the private partner having all the profits. Risk is unequally spread.
- The challenge in the Niti Aayog hybrid model is its implementation. How do public and private managements coexist in the same physical space? A hospital is a living institution that cannot be dismembered. Salary streams, motivation levels, working methods, prescription practices, monitoring and accountability systems, work expectations, all vary. Everyday, there are instances of patients being denied treatment in private hospitals till payment is made or preferring paying patients to the government insured ones or levying additional charges in addition to the sum reimbursed. Private hospitals are also known to overcharge devices like stents and drugs that are the key revenue earning centres. How, then, will the government operate its low-cost generics jan aushadhi pharmacies alongside the private entity pharmacies? In other words, in such a model how will conflicts of interest be managed?

(Primary healthcare is the first level of contact between patient with the health system: immunization, treatment of common diseases or injuries, provision of essential facilities, health education, provision of food and nutrition and adequate supply of safe drinking water.

Secondary Healthcare means patients from primary health care are referred to specialists in higher hospitals for treatment.

Tertiary Health care involves specialized consultative care provided on referral from primary and secondary medical care. Specialised Intensive Care Units, advanced diagnostic support services and specialized medical personnel on the key features of tertiary health care.)

PPP in Skill Development

As part of the government's initiative to augment the programmes for skill development, GOI announced setting up of 1,500 ITIs through PPP in unserved blocks. The objective is to create centres of excellence in vocational education especially for the youth from low-income families in order to improve their prospects of gainful employment. A major proportion of the costs incurred by an ITI are of a recurring nature, and GOI therefore, provides support for the recurring expenditure incurred by an ITI towards training students from underprivileged families. Further, GOI provides capital grant to meet a part of the cost of creating the infrastructure for setting up the ITIs. Under Phase 1 of Pradhan Mantri Kaushal Vikas Yojana (PMKVY), the government has trained millions More than 1,100 new industrial training institutes (ITIs) have been created in

2016. Cabinet approved a national apprenticeship promotion scheme under which five million people are to be trained by 2019-20 at a cost of Rs 10,000 crore.

In 2013 the Companies Act mandated all organizations with a minimum net worth of Rs 500 crores, a turnover of Rs 1,000 crores, and a net profit of at least Rs 5 crores, to spend at least 2% of their profits on CSR. Leading corporations have taken an active role in working with ITIs to strengthen them and improve the quality of learning outcomes from the institutions.

PPP in Digital India

Digital India is a campaign launched by the Government of India in 2015 which includes plans to connect rural areas withhigh-speed internet networks. Digital India consists of three core components. They are:

- Development of secure and stable Digital Infrastructure
- Delivering government services digitally
- Universal Digital Literacy

The BharatNet project, earlier National Optical Fibre Network or NOFN, seeks to bring high-speed broadband to all 2.5 lakh gram panchayats through optical fibre. It was approved by Cabinet in 2011.It is to be funded by Universal Service Obligation Fund (USOF). The project intends to enable the government of India to provide e-services and e-applications nationally.

Under BharatNet Phase I, Optical Fibre Cable (OFC) connectivity reached in over 1, 00, 000 Gram Panchayats (GPs) across different States in the country by November 2017. The second phase (BharatNet Phase 2) aims at covering the remaining 1.50 lakh GPS March 2019.

(USOF The NTP of 1999 had Universal Service as one of its main objectives.The resources for meeting the Universal Service Obligation (USO) were to be generated through a Universal Access Levy (UAL), at a prescribed percentage of the revenue earned by the telecom licensees (telcos).)

TRAI said that "public-private-partnership" (PPP) model is best suited for this project. Under PPP model, private sector's capacity for delivery is combined with the government's role as an enabler and regulator to overcome market failures.Build-Own-Operate-Transfer (BOOT) model has potential to ensure long-term incentive and reduces risks. TRAI:'A PPP model that aligns private incentives with long term service delivery in the vein of the Build-Own-Operate-Transfer/Build-Operate-Transfer models of implementation be the preferred means of implementation.'

TRAI said that a project like BharatNet should be done by entities that have their own interests in monetisation of the network.

PPP in Swachh Bharat

Swachh Bharat Abhiyan (SBA) was started in 2014 with the objectives that include eliminating open defecation through the construction of household-owned and community-owned toilets and establishing an accountable mechanism of monitoring toilet use. It aims to achieve an Open-Defecation Free (ODF) India by 2 October 2019, the 150th anniversary of the birth of Mahatma Gandhi, by constructing 12 million toilets in rural India at a projected cost of ₹1.96 lakh crore.

It is India's largest cleanliness drive to date with 3 million government employees, school students, and college students from all parts of India participating in 4,041 statutory cities, towns and associated rural areas.

The mission contains two sub-missions: Swachh Bharat Abhiyan ("Gramin" or rural), which operates under the Ministry of Drinking Water and Sanitation; and Swachh Bharat Abhiyan (Urban), which operates under the Ministry of Housing and Urban Affairs.

The government has stressed on promoting PPP. Community cleanliness projects can be funded via the PPP model.

Waste-to-energy projects can be taken up by PPP model.Mumbai has the potential to set up a 120-MW power station based on garbage the city generates, fetching Rs.1,000 crore a year. The PPP model can also be brought in by roping in corporates in such power projects.

Swach Bharat is very important part of CSR and Public Private Partnership (PPP). The Government's commitment that every person should have access to safe drinking water, a toilet and a hygiene facility by 2019 needs CSR and PPP framework for funds as well as quality interventions and programs, which can maximize social impact and the focus on behavior change to influence positive behaviors.

Concerns

Resort to PPPs in the social sector often raises concerns about the commercialisation of services that are normally expected to be provided free or highly subsidised. These are important concerns but they can be addressed by well-drafted concession agreements and strict monitoring to ensure that PPP concessionaires abide by their commitments. This must be reinforced with penalties for non compliance.

While extending the concept of PPP to social and urban sector projects, the need for 'people's' participation in the design and monitoring of PPP schemes becomes crucial. Local citizens are direct stakeholders in such projects and therefore their support becomes crucial. Therefore, some cities and States have begun to shape PPPs in the social and urban sectors as People–Public–Private Partnerships (PPPPs). This is a valuable innovation which should be applauded.

Recommendations of Kelkar Committee 2015

Public Private Partnerships (PPPs) in infrastructure refer to the provision of a public asset and service by a private partner who has been conceded the right (the "Concession") for the purpose, for a specified period of time, on the basis of market determined revenue streams, that allow for commercial return on investment. PPPs in infrastructure represent a valuable instrument to speed up infrastructure development in India. This speeding up is urgently required for India to grow rapidly and generate a demographic dividend for itself and also to tap into the large pool of pension and institutional funds from aging populations in the developed countries.

India offers today the world's largest market for PPPs. It has accumulated a wealth of experience in getting to this premiere position. As the PPP market in infrastructure matures in India, new challenges and opportunities have emerged and will continue to emerge. Periodic review of PPPs, as in the present Committee's remit, are a must to help address issues before they become endemic and to mainstream innovations and foster new ones that improve the successful delivery of PPP projects.

India's success in deploying PPPs as an important instrument for creating infrastructure in India will depend on a change in attitude and in the mind-set of all authorities dealing with PPPs, including public agencies partnering with the private sector, government departments supervising PPPs, and auditing and legislative institutions providing oversight of PPP's.

The Committee on Revisiting and Revitalizing the PPP model of Infrastructure Development headed by Dr. Vijay Kelkar submitted its report to the Finance Ministry in November 2015. The Committee was formed following the Finance Minister's announcemet on revising the Public Private Partnership (PPP) mode of infrastructure development in his budget speech, 2015-16.

Terms of reference of the Committee included: (i) reviewing the experience of PPP policy, including the variations in contracts and the difficulties experienced, (ii) analysing the risks involved in PPP projects in different sectors and the framework of risk sharing between the project developer and the government, (iii) proposing design modifications to the contractual arrangements of PPPs based on the above; and (iv) proposing measures to improve capacity building in government for effective implementation of PPP projects.

Recommendations

Revisiting PPPs: The Committee noted that, with the current demographic transition, and the consequent growing need for better infrastructure, it is important for India to improve its current model of PPPs. PPPs have the potential to deliver infrastructure projects better and faster. Currently, PPP contracts focus more on fiscal benefits. The Committee recommended that the focus should instead be on service delivery for citizens. Further, fiscal reporting practices and performance monitoring of PPPs should be improved.

The PPP model requires the involvement of a private partner to leverage financing and improve operational efficiencies. Therefore, state owned enterprises or public sector undertakings should not be allowed to bid for PPP projects. PPPs should not be used by the government to evade its responsibility of service delivery to citizens. This model should be adopted only after checking its viability for a project, in terms of costs and risks. Further, PPP structures should not be adopted for very small projects, since the benefits are not commensurate with the costs.

Risk allocation and management: The Committee noted that inefficient and inequitable allocation of risk can be a major factor leading to failure of PPPs. PPP contracts should ensure optimal risk allocation across all stakeholders by ensuring that it is allocated to the entity that is best suited to manage the risk. A generic risk monitoring and evaluation framework should be developed covering all aspects of a project's lifecycle. The Committee also recommended the guidelines for risk allocation.

Strengthening policy and governance: Ministry of Finance may develop a national PPP policy document, endorsed by Parliament. The Committee also recommended formulating a PPP law, if feasible. Further, the Prevention of Corruption Act, 1988 should be amended to distinguish between genuine errors in decision making and acts of corruption by public servants.

Strengthening institutional capacity: The capacity of all stakeholders including regulators, authorities, consultants, financing agencies, etc should be built up. A national level institution should be set up to support institutional capacity building activities, and encouraging private investments with regard to PPPs. Independent regulators must be set up in sectors that are going for PPPs. An Infrastructure PPP Project Review Committee may be set up to evaluate PPP projects. An Infrastructure PPP Adjudication Tribunal should also be constituted. A quick, efficient, and enforceable dispute resolution mechanism must be developed for PPP projects.

Strengthening contracts: Since infrastructure projects span over 20-30 years, a private developer may lose bargaining power because of abrupt changes in the economic or policy environment. The Committee recommended that the private sector must be protected against such loss of bargaining power. This could be ensured by amending the terms of the PPP contracts to allow for renegotiations. The decision on a renegotiated concession agreement must be based on (i) full disclosure of renegotiated costs, risks and benefits, (ii) comparison with the financial position of the government at the time of signing the agreement, and (iii) comparison with the existing financial position of the government just before renegotiation.

PPPs and Capacity Building in the States

The State Governments generally do not have dedicated staff resources for handling PPP projects or for building the requisite capacity. Such capacity is critical for conceptualising project proposals, engaging consultants, interacting with and supervising consultants, analysing and processing their advice for government approvals, interacting with prospective investors, executing the project documents and monitoring implementation.

SIA

Social impact assessment (SIA) assesses the social effects of infrastructure projects and other development interventions. The origin of SIA comes from the environmental impact assessment (EIA) model, which first emerged in the 1970s in the U.S. as a way to assess the impacts on environment (trees, soil, rivers and other water bodies, wild life etc) of certain development schemes and projects before they go ahead – for example, new roads, industrial facilities, mines, dams, ports, airports, and other infrastructure projects. It has been incorporated since into the formal planning and approval processes in several countries, in order to categorize and assess how major developments may affect populations, groups, and settlements.

Social impact assessment is also of increasing importance as a means to measure and monitor the social returns or social outputs of a project. Social impacts can be defined as the consequences to people of any proposed action that changes the way they live, work, relate to one another, organise themselves and function as individuals and members of society. This definition includes social-psychological changes, for example to people's values, attitudes and perceptions of themselves and their community and environment. Indeed, some SIA practitioners consider social impacts to be only 'as experienced' (e.g. stress, disruption, hunger) and differentiate these from the causal processes (e.g. over-crowding, infrastructure pressure, poverty). Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013 makes SIA mandatory.

The main types of social impact that occur as a result of these project-related changes can be grouped into five overlapping categories:

- lifestyle impacts – on the way people behave and relate to family, friends and cohorts on a day-to-day basis;
- cultural impacts – on shared customs, obligations, values, language, religious belief and other elements which make a social or ethnic group distinct;
- community impacts – on infrastructure, services, voluntary organisations, activity networks and cohesion;
- amenity/quality of life impacts – on sense of place, aesthetics and heritage, perception of belonging, security and livability, and aspirations for the future; and

- health impacts – on mental, physical and social well being, although these aspects are also the subject of health impact assessment

The key points of the above discussion are that:

- social and biophysical impacts are interconnected and should be assessed together;
- SIA is understood to be concerned with the human consequences of development proposals, identifying all significant social impacts that arise in this context; and

National Investment & Manufacturing Zones (NIMZs)

Government notified the National Manufacturing Policy (NMP) on 4th November, 2011 with the objective of enhancing the share of manufacturing in GDP to 25% and creating 100 million jobs over a decade or so. National Investment and Manufacturing Zones (NIMZs) are one of the important instruments of the Policy to achieve its objectives. So far Government has granted 'in-principle' approval to the fourteen NIMZs (outside the DMIC region). These are:

- Nagpur in Maharashtra
- Prakasam in Andhra Pradesh
- Chittoor in Andhra Pradesh
- Medak in Telangana
- Hyderabad Pharma NIMZ at Rangareddy and Mahabubnagar Districts in Telangana.
- Tumkur in Karnataka
- Kolar in Karnataka
- Bidar in Karnataka
- Gulbarga in Karnataka
- Kalinganagar, Jajpur District in Odisha
- Ramanathapuram District of Tamil Nadu
- Ponneri Taluk, Thiruvallur District, Tamil Nadu
- Auraiya District in Uttar Pradesh and
- Jhansi District in Uttar Pradesh

Of these, the NIMZ at Prakasam in Andhra Pradesh, Medak in Telangana and Kalinganagar, Jajpur district in Odisha have been granted final approval.

Eight Investment Regions along the Delhi Mumbai Industrial Corridor (DMIC) project have also been announced as NIMZs. The details are as under:

- Ahmedabad-Dholera Investment Region, Gujarat
- Shendra-Bidkin Industrial Park city near Aurangabad, Maharashtra
- Manesar-Bawal Investment Region, Haryana
- Khushkhera-Bhiwadi-Neemrana Investment Region, Rajasthan
- Pithampur-Dhar-Mhow Investment Region, Madhya Pradesh
- Dadri-Noida-Ghaziabad Investment Region, Uttar Pradesh
- Dighi Port Industrial Area, Maharashtra ; and
- Jodhpur-Pali-Marwar Region in Rajasthan

The basic detail is as follows: State government selects the land and applies to the Central government to accept its proposal to set up an NIMZ. If the central government accepts, it notifies the same and sets up an SPV that manages it. State government owns it itself or makes any other arrangement of ownership. NIMZs are developed as green field industrial townships, benchmarked with the best manufacturing hubs in the world. These NIMZs seek to address the infrastructural bottleneck which has been cited as a constraining factor for the growth of manufacturing".

The NMIZ functions as "a self-governing and autonomous body and will be declared by the State Governments as an Industrial Township under Art 243 Q (c) of the Constitution. They would be different from SEZs in terms of size, level of infrastructure planning, and governance structure related to regulatory procedures and exit policies". NIMZ may also have SEZs located in them. While SEZs mainly concentrated on exports, NIMZs have no such role, though they may export if they choose to. SEZs exist for the services sectors as well while NIMZ does not.

Thus, NIMZ is an all-inclusive gigantic structure combining production units, public utilities, logistics, environmental protection mechanisms, residential areas and administrative services. It may also include one or more Special Economic Zones (SEZs), Industrial Parks and Warehousing Zones, Export Oriented Units (EOUs) and Domestic Tariff Area (DTA) units.

NIMZ would have an area of at least 5000 hectares .As regards internal infrastructure of NMIZ, it will be provided by a Developer or a group of Co-developers, while external linkages will be provided by Govt. of India and the concerned State Govt. Thus, it requires Centre-State co-ordination.

While the Central Govt. will be responsible for notifying the NIMZ and issuing necessary clearances, the State Governments have many tasks to perform. Apart from selecting the land and acquiring if necessary such as ensuring water requirements, power connectivity, infrastructure linkages, etc. Other functions of states government include, among other things,

- land,
- funding of initial cost of land,
- exploring funding arrangements, including from international funding institutions, long term tax free debentures, etc
- power connectivity,
- water requirements,
- state roads connectivity,
- sewerage and effluent treatment,
- health, safety and environmental issues, etc.

The preference will be for non-agricultural land with adequate water supply. If needed, the states may reserve a certain share of the land for MSMEs. Ownership of an NIMZ will either be with the state government, a state government undertaking in joint ownership with a private partner or under any other appropriate model. Wasteland, as far as possible will be acquired and agricultural land will be kept to minimum. It should not be in ecologically sensitive area.

NIMZs will put in place a comprehensive exit policy that will promote productivity while providing flexibility by reducing some of the moving rigidities in the labour market and by ensuring protection of workers' rights as laid down in the statute.

Affordable Housing

Affordable housing addresses the housing needs of the lower or middle income households. Disposable income of the people remains the primary factor in determining the affordability. As a result, it becomes the increased responsibility of the government to cater to the rising demand for affordable housing. The Government of India has taken various measures to meet the increased demand for affordable housing along with some developers and stressing on public-private partnerships (PPP) for development of these units.

There were many problems initially in developing affordable housing: lack of land and high construction costs; unfavourable tax environment and lack of incentives. A major catalyst instrumental in this segment's growth was the Indian government's ambitious housing program.

In 2015, Prime Minister Narendra Modi announced the 'Housing for All by 2022' scheme targeting two crore homes to be built across all urban locations over the next five years. 2017-18 Union Budget has many initiatives for the affordable sector:

- The government has granted the much-coveted infrastructure status to affordable housing, giving developers access to cheaper sources of funding, including external commercial borrowings (ECBs).
- Affordable housing promoters have been granted more time for project completion - the deadline has been increased to five years from the current three years.
- The qualifying criteria for affordable housing have been revised to 30 square meters and 60 square meters on the carpet, rather than the saleable area, for metros and non-metros respectively. This effectively increases the size of the affordable housing market across India.
- a new Credit Linked Subsidy Scheme (CLSS) for the mid-income group was announced with a provision of Rs 1,000 crore.

The government is reaching out to developers to make 'Housing for All by 2022' a reality. An additional incentive of 39% higher allocations was announced for affordable housing development this financial year under the Pradhan Mantri Awas Yojana (PMAY). It has also extended the CLSS to loans up to Rs 12 lakh.

Government policies like the Real Estate Regulatory Authority (RERA) made buyer confident. The availability of cheap finance is also driving the demand for affordable housing.

Refinance of housing loans by National Housing Banks (NHBs) will give further boost to the sector.

There are however challenges.

The biggest challenge to create affordable housing is the unlocking of land in urban areas. Unless adequate land is made available, creating 2 crore homes may be a distant dream. According to an estimate, close to 57,392 acres will be required to build the 2 crore homes. This will require unlocking non-essential lands currently being held by large government bodies.

The housing shortage in India is pegged at 1.9 crore units and the government has recognized the need to fill the gap in urban housing. The drive to bring homes to the country's 1.3 billion people is expected to bring a colossal $1.3 trillion of investment to the housing sector over the next seven years. The government's financial and policy thrust, regulatory support, rising urbanization, and increasing affordability is converting demand for affordable homes into a commercially viable opportunity.

Infrastructure Status

In the Budget 2017-18, GOI gave 'affordable housing' infrastructure status to facilitate higher investment in the sector and, in turn, achieve the government's ambitious goal of 'Housing for All'.

The grant of infrastructure status would mean builders will be eligible for many government tax and subsidy incentives, and institutional funding at affordable rates for low cost homes.

With the infrastructure status, the sector can look at funding through insurance companies, which is a huge alternate sector and opens up a new avenue for long term real estate funding. It also means higher limit on external commercial borrowings which will attract more investments.

PPP Policy for Affordable Housing

Central Government announced a new PPP Policy for Affordable Housing that allows extending central assistance of up to Rs.2.50 lakh per each house to be built by private builders even on private lands besides opening up immense potential for private investments in affordable housing projects on government lands in urban areas.

The policy gives eight PPP (Public Private Partnership) options for private sector to invest in affordable housing segment. It seeks to divide risks among the government, developers and financial institutions, to those who can manage them the best besides leveraging under utilized and un-utilized private and public lands towards meeting the Housing for All target by 202..

It proposes eight implementation models for affordable housing using PPP, six of those using government lands, and two using private land. These are:

- Government land based subsidised housing: The public authority will allot land to the selected private developer, who will design, build, and transfer the housing units back to the authority. The public authority will pay the developer based on pre-determined milestones.
- Mixed development cross-subsidised housing: Instead of receiving payments from the public authority, the developer can cross subsidise the project by developing high end housing on a part of the allotted land.
- Annuity based subsidised housing: The public authority will allot the land and pay the developer in annuity payments (up to 10 years). The developer will maintain the project for this period, and will be monitored by the authority.
- Annuity cum capital grant based subsidised housing: A significant proportion of the cost (40-50%) will be paid by the authority during the construction phase. The remainder will be paid as an annuity (up to 10 years).
- Direct relationship ownership housing: The land will be allotted to the developer by the authority. The beneficiary will directly pay to the private developer.
- Direct relationship rental housing: The developer will own the housing units and receive rent from the beneficiaries.
- Credit Linked Subsidy Scheme (CLSS) approach: The private developer will be responsible for providing land as well as the development of the project. Under the CLSS

component of the Pradhan Mantri Awas Yojana (PMAY), the central government will provide an interest - subsidy of Rs 2.50 lakh per house on loans taken by beneficiaries.

- Affordable Housing Partnership (AHP) approach: The private developer will be responsible for providing land and the development of the project. The central government will provide the allottees an assistance of Rs 1.50 lakh for each economically weaker section housing unit

Sagar Mala Project

Problems with the port sector in India

For long, the growth of India's maritime sector has been hampered by many procedural and policy related challenges, the most important among them being the presence of a dual institutional structure that has led to the development of major ports (those owned by the central government) and non-major ports (those owned by the state governments) as individual projects.

Lack of infrastructure for evacuation of cargo at major and non-major ports leading to a sub-optimal transport modal mix, limited hinterland linkages and its impact on transportation costs, limited development of coastal areas for manufacturing and economic activities, low penetration of coastal and inland shipping, lack of scale and deep draft at ports also contributed to the skewed growth.

Sagar Mala project is a strategic and customer oriented initiative of the Government of India to modernize India's Ports so that port-led development can be augmented and coastlines can be developed to contribute in India's growth. It looks towards "transforming the existing Ports into modern world class Ports and integrate the development of the Ports, the Industrial clusters and hinterland and efficient evacuation systems through road, rail, inland and coastal waterways resulting in Ports becoming the drivers of economic activity in coastal areas. It aims at harnessing India's 7,500-km long coastline, 14,500-km of potentially navigable waterways and strategic location on key international maritime trade routes.

Indian coastline will be developed as Coastal Economic Regions (CER). The Sagarmala Development Company was given the nod for incorporation by Indian Cabinet in July 2016 with an initial authorized share capital of Rs 1000 Crore and subscribed share capital of Rs 90 Crore, to give a push to port-led development. The Sagarmala National Perspective Plan was released in April-2016 with details on Project Plan and Implementation.

Sagar Mala project—an infrastructure-cum-policy initiative being readied by the shipping ministry— seeks to allow the central government to have a say in the development of non-major ports. The initiative, according to the ministry, will strive to tackle all the challenges by focusing on port modernization, efficient evacuation and coastal economic development through a structured framework for ensuring inter-agency collaboration and integrated development. It will provide the necessary institutional framework to enable the central and state authorities to work together for ensuring inclusive growth.

Coastal Economic Regions (CER)

As a part of flagship Sagarmala (string of ports) project, the government will develop 10 Coastal Economic Regions (CERs) which will be the focal point for economic development along India's vast coastline of over 7,000km. Each CER will hold an integrated and comprehensive plan of the area, combining the growth potential of various industrial clusters and economic activities with the upgradation and development of both major and non-major ports simultaneously. The CER will also develop transport systems for land- and water-borne evacuation of cargo from and to the ports on a regional basis, thus ensuring an optimal modal mix. By linking major and non-major ports, industrial clusters and evacuation infrastructure into a single system at a larger regional level, a CER will enable seamless and efficient movement of cargo through gateways, thereby allowing ports to enhance competitiveness and offer multiple freight options to customers.

Ports will thus be able to actively participate in driving the economic development of a wider region, which is similar to the role large global ports are playing in their respective countries.This will need enabling policies, institutional framework and appropriate funding mechanism for promoting collaborative development.

The Sagar Mala project would be implemented by a company set up at the national level. Each CER will be developed through a special purpose vehicle having equity participation from the state government concerned and the company. The management of the CER special purpose vehicle would vest with the state government.

Port-led development model successfully delivered in Gujarat. This includes development port-based industrial parks, captive industries and ancillary facilities such as ship repair, shipbuilding, ship-breaking, bunkering, container freight stations, warehousing facilities, industries requiring significant import of raw materials and industries with large export potential. This will ultimately result in more cargo for ports. The states, too, have much to gain from such a collaboration because it would ensure funding and other institutional support from the centre.

Sagar Mala has come at the right time for the central government-owned ports, many of which are losing market share to non-major ports mainly due to regulatory reasons. Extending a collaborative hand would help both set of ports to grow. The project would need Rs 5,000 crore in investment in the next five years.

While this will primarily focus on major and minor ports, government is also going for its other agenda to attract private investment in the inland waterway sector that can provide a competitive alternative to road and rail network for cargo transport. Thus, Make in India programme gets boost.

Logistics Performance Index (LPI)

It is a benchmarking tool created to help countries identify the challenges and opportunities they face in their performance on trade logistics and what they can do to improve their performance. It is the weighted average of the country scores on key dimensions: quality of logistics services (e.g., transport operators, customs brokers); Ability to track and trace consignments; Timeliness of shipments in reaching destination within the scheduled or expected delivery time etc. This measure indicates the relative ease and efficiency with which products can be moved into and inside a country.

Logistics Performance Index is reported by World Bank in every 2 years. The LPI is based on a worldwide survey of stakeholders on the ground providing feedback on the logistics "friendliness" of the countries in which they operate and those with which they trade.In the 2016 logistics performance index,top position is held by Germany. India holds 35th position, a significant improvement from 2014.

NIIF

National Investment and Infrastructure Fund (NIIF) is a fund created by the Government of India for strengthening infrastructure financing in the country. It must be noted that his is different from the National Investment Fund which is raised form public sector disinvestment.

India needs investments worth an estimated Rs 43 lakh crore (about $646 billion) in the infrastructure sector over the next five years. As much as 70% of this requirement will be in power, roads and urban infrastructure. Since most public-sector banks are struggling to cope with toxic assets, their ability to fund large infrastructure projects is very limited. So funds for infrastructure from other sources, including NIIF, assume importance.

The NIIF and its sub-funds are supposed to invest in infrastructure projects — greenfield, brownfield and stalled. The NIIF will have an initial corpus of Rs 40,000 crore, of which 49% will be contributed by the government. The remaining 51% is to be raised from sovereign wealth funds, other global long-term investors and public-sector units. The government has already approved its contribution of Rs 20,000 crore towards the NIIF. Of this, however, Rs 1,000 crore has been budgeted for 2017-18, and Rs 4,000 crore for the last fiscal.

The NIIF was set up as a trust under the provisions of the Indian Trusts Act, 1882.The NIIF was registered with Securities and Exchange Board of India as investment fund in 2015. NIIF aims to raise debt to invest in the equity of infrastructure finance companies such as Indian Rail Finance Corporation (IRFC) and National Housing Bank (NHB). It could also consider other nationally important projects, for example, in manufacturing, if commercially viable.

The idea is that these infrastructure finance companies can then use this extra equity, manifold. It is a fund of funds and may invest in other SEBI registered funds.

New Metro Policy

The new metro rail policy empowers states, by putting the onus on them to improve project viability by stressing on economic viability and private participation. It elaborates, that the viability can be improved by promoting transit-oriented development (TOD) and allying it with real estate development, improving last-mile connectivity as well as attracting private investments. The policy provides for rigorous assessment of new metro proposals, including alternate transit mode analysis to ensure that the least-cost and most-efficient mass transit mode is selected for public transport. The new policy plans to empower states to regulate and set up a Fare-Fixation Authority as well as promoting other non-fare revenues such as advertisements, lease of space. Also there are provisions to raise resources using innovative mechanisms like 'Betterment Levy' on nearby assets, issuance of corporate bonds and improve last-mile connectivity for a catchment area of nearly five km, to promote metro ridership. The three models are outlined in the policy:

- Public-Private Partnership with Central assistance. This will be part of the Union Finance Ministry's viability gap funding scheme.
- Grant by Centre whereby 10% of Metro project cost will be provided by the Central government as lump sum amount.
- 50-50% Equity sharing model taken between the Centre and state.

Green Bonds

Green bonds are debt instruments that raise money to fund clean energy projects. Companies that raise money through these bonds have to invest it only in areas that are environment-friendly such as renewable energy, waste management, clean transport or sustainable land use.Though the green bond market has been in existence globally since 2007, in India it took off in 2015. Their significance lies in the clean environment that it will create; reverse climate change; augment financial resources for investment; provide foreign currency etc.

Yes Bank was the first Indian entity to raise money through green bonds, raising ₹1000 crore from insurance companies, pension funds, mutual fund houses and foreign portfolio investors to fund solar, wind and biomass projects in 2015. Later, the EXIM Bank raised about $500 million from international investors through green bonds.

Since India signed the Paris climate deal in 2015, a number of public and private companies have sold green bonds to raise money. Companies such as IDBI Bank, Axis Bank and NTPC Ltd have raised large sums through green bonds. State Bank of India plans to raise in 2017-18 up to $3 billion in the country's biggest overseas green-bond issue for funding projects that will help achieve the government's commitments toward sustainable growth.There has been an aggressive commitment for renewable energy by the government which has set very stringent renewable energy targets—175 gigawatts by 2022—an estimated requirement of $200 billion. Hence, in the next five years, we will see a huge amount of infrastructure spending on such projects.The Securities and Exchange Board of India (Sebi), in 2015, endorsed the Green Bond principles which are internationally recognized standards.

SEBI Guidelines

In 2015, Securities and Exchange Board of India (SEBI) proposed new norms for issuance and listing of green bonds. The proposed norms mainly relate to disclosure requirements by the companies intending to issue such bonds, as also to the periodic reporting of fund allocation:list of projects to which Green Bond proceeds have been allocated. This may also include the details of expected environmental impact of such projects.

However, for designating an issue of corporate bonds as green bonds, in addition to the compliance with the requirements under the existing regulations, an issuer will have to disclose in the offer document certain additional information about the green bonds, which have been based upon the Green Bond Principles, 2015.

Green Bond Principles 2015

As the market for green bonds grew rapidly, a group of banks initiated the development of the Green Bond Principles (GBP)—a set of voluntary guidelines framing the issuanee of green bonds.GBP encourage transparency, disclosure, and integrity in the development of the green bond market. The GBP suggest a process for designating, disclosing, managing, and reporting on the proceeds of the bond. They are designed to provide issuers with guidance on the key components involved in launching a green bond, including providing information to aid investors in evaluating the environmental impact of their green bond investments. The International Capital Markets Association acts as the GBP's secretariat and facilitates the work of its members, including issuers, investors, banks underwriting green bonds, and other market participants.

The GBP recognize several broad categories of potential eligible projects, which include but are not limited to the following:

- Renewable energy
- Energy efficiency (including efficient buildings)
- Sustainable waste management
- Sustainable land use (including sustainable forestry and agriculture)
- Biodiversity conservation
- Clean transportation
- Sustainable water management (including clean and/or drinking water)
- Climate change adaptation

India's Inland Waterways

India has an extensive network of inland waterways in the form of rivers, canals, backwaters and creeks. The total navigable length is 14,500 km (9,000 mi), out of which about 5,200 km (3,200 mi) of the river and 4,000 km (2,500 mi) of canals can be used by mechanized crafts. Freight transportation by waterways is under-utilized in India compared to other large countries and geographic areas like the United States, China and the European Union. The total cargo moved (in tonne kilometers) by the inland waterway was just 0.1% of the total inland traffic in India, compared to the 21% figure for United States. Cargo transportation in an organized manner is confined to a few waterways in Goa, West Bengal, Assam, and Kerala.

Cost of water transportation in India is barely 50 paise a kilometer, as compared to ₹1 by railways and ₹1.5by roads. Hence water transportation is receiving significant attention in recent times. Inland waterways in India consist of the Ganges (Ganga)–Bhagirathi Hooghly rivers, the Brahmaputra, the Barak river, the rivers in Goa, the backwaters in Kerala, inland waters in Mumbai and the deltaic regions of the Godavari - Krishna rivers. About 44 million tones of cargo is moved annually through these waterways using mechanized vessels and country boats.

Inland Waterways and National Waterways Act 2016

In April 2016 National Waterways Act came into force. It declares 106 additional inland waterways as the national waterways in addition to five existing national waterways. The declaration of these National Waterways would enable Inland Waterways Authority of India (IWAI) to develop the feasible stretches for Shipping and Navigation. The right over the use of water, river bed and the land will remain with the State Government.

The legislation provides conversion into waterways 15 rivers in West Bengal, 14 each in Assam and Maharashtra, 11 in Karnataka, 12 in Uttar Pradesh, 9 in Tamil Nadu and 6 each in Bihar and Goa and 5 each in Gujarat, Meghalaya, Odisha and Telangana, among others. It also includes plan to convert the Yamuna in Delhi and Haryana into a waterway. Five of the river-stretches, which have been declared as National Waterways, include Allahabad Haldia on Ganga (1,620 km), Brahmaputra's Dhubri-Sadiya (891 km), West Coast Canal Kottapuram Kollam (205 km), Kakinada Puducherry canals (1,078 km) and East Coast Canal integrated with Brahmani river and Mahanadi delta rivers (588 km).

The Act highlights the crucial importance of waterways in the economic development of the country, which for long remained a backburner. India's trade through the waterways constitutes only 3.5 per cent. Inland water development is cost-effective. Often it has been said that it is far easier and less expensive to transport goods from Mumbai to London than it is from Mumbai to Delhi. In this context, the Minister said that inland waterways cost only 30 paise to move cargo through waterways in comparison to Rs 1.5 through road and Rupee one from raill.

The Act also ensures that it is equally environment-friendly especially in protecting the riverine ecology and fisheries and importantly tackling pollution. Inland waterways interlink three important issues:

- Tool for industrial development: The competitive edge of key industries (steel, agro, oil & minerals) on the global market strongly relies on cost-effective inbound and outbound shipments of raw materials by waterways. A positive chain effect is established that can directly benefits non-waterway regions through competitive pricing of end products.
- Tool for economic growth: In densely populated parts of India with strong industry presence, inland waterways will help keep goods moving by avoiding a traffic gridlock when economic growth leads to rising freight volumes again. Investments in waterways infrastructure will serve, besides sustainable transport, regional development and tourism. The neighbourhood first approach of the government will get adequate boost by developing India's inland waterways.
- Tool for sustainable development: Clearly inland waterway transport will reduce negative externalities. Investments in waterways will serve biodiversity and integrated water management.

The social and environmental benefits of inland water transport are potentially high. Reduced fuel consumption, reduced global warming, cheaper goods and services for customers, more fisheries and wildlife, less accidents on road, decongested highways, cheaper travel opportunities for riverine communities are some very immediate benefits. Fishing can become a viable livelihood option again for the riverine communities. Importantly, it will also force cities and towns to reduce untreated sewage into rivers as they will tend to decrease the economic value of the river.

Other benefits are: creation of business opportunities and jobs, and public benefits, such as recreation. Some of the key benefits provided by inland waterways may lie in those areas which are currently not quantified and valued, such as drainage and community benefits including a sense of civic pride. Further evidence on the benefits of green transport opportunities is also required as these may prove to play a significant role in reducing travel carbon emissions. These are high on the government's agenda.

Jal Marg Vikas

It is a project on the river Ganga, being developed between Allahabad and Haldia to cover a distance of 1620 kms. The project envisages development of a fairway with three metres depth, which would enable commercial navigation of at least 1500 ton vessels on the river. Construction of multi modal terminals, jetties, river information system, channel marking, navigational lock, river training and conservancy works are to be undertaken as part of the project. The project is being implemented with technical and investment support from World Bank and would be completed over a period of six years at an estimated cost of Rs. 4200 crore.

Special Economic Zones (SEZs)

India was one of the first in Asia to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting exports, with Asia's first EPZ set up in Kandla in 1965. With a view to overcome the shortcomings experienced on account of the multiplicity of controls and clearances; absence of world-class infrastructure, and an unstable fiscal regime and with a view to attract larger foreign investments in India, the Special Economic Zones (SEZs) Policy was announced in 2000. This policy intended to make SEZs an engine for economic growth supported by quality infrastructure complemented by an attractive fiscal package, both at the Centre and the State level, with the minimum possible regulations.

To instill confidence in investors and signal the Government's commitment to a stable SEZ policy regime and with a view to impart stability to the SEZ regime thereby generating greater economic activity and employment through the establishment of SEZs, Special Economic Zones Act, 2005, was made in 2005 The main objectives of the SEZ Act are:

- generation of additional economic activity
- promotion of exports of goods and services;
- promotion of investment from domestic and foreign sources;
- creation of employment opportunities;
- development of infrastructure facilities;

It is expected that this will trigger a large flow of foreign and domestic investment in SEZs, in infrastructure and productive capacity, leading to generation of additional economic activity and creation of employment opportunities.

The SEZ Act 2005 envisages key role for the State Governments in Export Promotion and creation of related infrastructure. A Single Window SEZ approval mechanism has been provided through a 19 member inter-ministerial SEZ Board of Approval (BoA). The applications duly recommended by the respective State Governments/UT Administration are considered by this BoA periodically. All decisions of the Board of approvals are with consensus.The SEZ Rules provide for different minimum land requirement for different class of SEZs. Every SEZ is divided into a processing area where alone the SEZ units would come up and the non-processing area where the supporting infrastructure is to be created.

Approval Mechanism

The developer submits the proposal for establishment of SEZ to the concerned State Government. The State Government has to forward the proposal with its recommendation to the Board of Approval. The applicant also has the option to submit the proposal directly to the Board of Approval.The Board of Approval has been constituted by the Central Government in exercise of the powers conferred under the SEZ Act. All the decisions are taken in the Board of Approval by consensus.

The functioning of the SEZs is governed by a three tier administrative set up. The Board of Approval is the apex body. The Approval Committee at the Zone level deals with approval of units in the SEZs and other related issues. Each Zone is headed by a Development Commissioner, who is ex-officio chairperson of the Approval Committee.

Once an SEZ has been approved by the Board of Approval and Central Government has notified the area of the SEZ, units are allowed to be set up in the SEZ. All the proposals for setting up of units in the SEZ are approved at the Zone level by the Approval Committee consisting of Development Commissioner, Customs Authorities and representatives of State Government.

Fact Sheet on Special Economic Zones

Number of Formal approvals (*As on 07.09.2017*)	424
Number of notified SEZs (*As on 07.09.2017*)	354 + (*7 Central Govt. + 11 State/Pvt. SEZs*)
Number of In-Principle Approvals (*As on 07.09.2017*)	31
Operational SEZs (*As on 30th June, 2017*)	222
Units approved in SEZs (*As on 30th June, 2017*)	4,643

INVESTMENT	**Investment** (*As on February, 2006*)	**Incremental Investment**	**Total Investment** (*As on 30th June, 2017*)
Central Government SEZs	Rs.2,279.20 cr.	Rs.13,694.80 cr.	Rs.15,974 cr.
State/Pvt. SEZs set up before 2006	Rs.1,756.31 cr.	Rs.9,721.69 cr.	Rs.11,478 cr.
SEZs Notified under the Act	-	Rs.4,05,690 cr.	Rs.4,05,690 cr.
Total	**Rs.4,035.51 cr.**	**Rs.4,29,106.49 cr.**	**Rs.4,33,142 cr.**

EMPLOYMENT	**Employment** (*As on February, 2006*)	**Incremental Employment**	**Total Employment** (*As on 30th June, 2017*)
Central Government SEZs	1,22,236 persons	1,12,625 persons	2,34,861 persons
State/Pvt. SEZs set up before 2006	12,468 persons	83,502 persons	95,970 persons
SEZs Notified under the Act	0 persons	14,48,020 persons	14,48,020 persons
Total	**1,34,704 persons**	**16,44,147 persons**	**17,78,851 persons**

Exports in 2014-15	**Rs. 4,63,770 Crore**
Exports in 2015-16	**Rs. 4,67,337 Crore**
Exports in 2016-17	**Rs. 5,23,637 Crore**
Exports in 2017-18 (*As on 30th June, 2017*)	**Rs. 1,35,248 Crore** (Growth of 15.39% over the exports of the corresponding period of FY 2016-17)

Industrial Parks

The Rakesh Mohan Committee Report refers to Integrated Industrial Parks as "self contained island providing high-quality infrastructural facilities. Integrated industrial parks offer industrial, residential, and commercial areas with developed plots/ pre-built factories, power, telecom, water and other social infrastructure".

Stakeholders	Benefits offered
For Users:	Availability of high quality infrastructure in a centralised manner for the end-user industries resulting in lower transaction costs and shorter start-up time for them. Economies of scale in terms of development of land and infrastructure, including common facilities.
For the State:	Macroeconomic benefits like, increase in industrial development, growth of hinterland, etc. Geographical spread of industrial development including development of backward areas. Fulfilment of state's social objectives like generation of employment, creation of social infrastructure, etc. Revenues generated by the government through taxes and duties
For the Developer / Operator:	Commercial returns received by the park developer, operator and utility provider

The industrial parks are usually promoted by the SIDC or such other government agency / statutory authority. The projects are planned, approved, developed, managed and regulated by a governmental agency with minimal private sector participation.

There are different schemes under which the industrial parks could be promoted including: Growth Centre, Export Processing Zone, Free Trade Zone, Export Promotion Industrial Park, Software Technology Park, Electronics Hardware Technology Park.

The key features of the industrial parks development in India are:

- Status of the industrial parks sector varies from State to State, wherein states like Maharashtra, Gujarat, AP, Tamil Nadu, etc. have made significant progress in promoting industrial parks / estates.
- The approaches relating to development, administration, regulation, etc. of industrial parks also vary according to the political and developmental compulsions faced by the individual States.
- Primarily, the industrial parks have been promoted by the government and its agencies with minimal private sector participation (PSP). PSP in industrial parks has met with partial success in India and that too has primarily been restricted to the IT parks.
- A few examples of the private initiative in industrial parks development are Information Technology Park (ITPL), Bangalore; Infocity, Hyderabad; Technopark, Thiruvananthapuram; etc. The Mahindra City at Chennai was envisaged initially as an Auto

Park. However, over a period of time, the concept was changed and the park started focussing on IT and ITeS. The IT sector boom could perhaps have contributed to the development and success of IT parks.

- Often, the decision to set-up an industrial park reflects the and social objectives of the government. With parks throughout the State normally under a single agency, typically the SIDC, the revenues from parks at industrially forward locations are used to cross-subsidise the parks in the backward areas.

China is setting up two industrial parks, one in Gujarat and the other in Maharashtra. India wants Chinese goods made in India as that can help in reduction of trade deficit and also exports from India in future. Indian market is large and also cuts labour costs for China. But India has to protect its small and medium enterprises (SMEs).

Land Pooling Vs Land Acquisition

States, such as Maharashtra, Gujarat, Tamil Nadu, Punjab, Andhra Pradesh and Kerala have used land pooling as a viable alternative to land acquisition. It is a technique for promoting efficient, sustainable and equitable land development in the urban fringes.

The concept of land pooling involves amassing small rural land parcels into a large parcel, provide it with infrastructure and return approximately 60 per cent of the redeveloped land to the owners after the development is complete and appropriating the costs of infrastructure and public spaces. Of the 40 per cent that remains with the local town planning or state government authority, a substantial portion is reserved for setting up infrastructure such as roads, hospitals, schools, parks, provide electricity, water, sewerage and such like. The local planning or developing authority usually sells the rest for financing the costs for the infrastructure and amenities. The target parcels are usually agricultural holdings which are converted to urban use.

Since contiguous parcels are required by the government authority, the land owner usually gets a percentage of his holding back at another location within a radius of 5 km from his original holding. He may also get additional floor space index (FSI), due to which the value of the returned land will be a multiple of the worth of his original holding, even though the plot size has shrunk. A land readjustment scheme like this is initiated by Government

As the method is based on public/private cooperation, the majority of the landowners should support the use of the technique. Forceful acquisition of land should be avoided.

It provides an opportunity for a planned development of the land and infrastructure network and it avoids the problem where different types of land uses and densities are mixed.

It is an attractive method to influence the location and timing of new urban development since it is becoming increasingly difficult to obtain public support for land acquisition. The method is supported and sometimes even initiated by the landowners since they would make considerable profit on the project.

Farmers agreed to become partners in a land pooling scheme proposed by the Andhra Pradesh Capital Region Development Authority (APCRDA), for the development of the Andhra Pradesh state capital at Amaravati, contributing about 33,000 acre to the government for the purpose. The Delhi Development Authority (DDA) identified 200 villages along the outskirts of Delhi in a land pooling scheme, to convert around 90 villages into development areas and another 90 into urban villages. DDA has recently passed a modified land pooling policy within the Master Plan Delhi 2021.

City and Industrial Development Corporation of Maharashtra Lt(CIDCO) is developing an international airport at Navi Mumbai and villages coming under Navi Mumbai Airport Influence Notified Area (NAINA) are participating in a land pooling scheme to facilitate its construction.

Pooling is seen as a viable alternative to land acquisition primarily because of the difficulties involved in acquiring clear, marketable and litigation-free appropriately sized contiguous land parcels for development –it is sensitive issue in various parts of the country.

SRIRAM'sIAS

INTERNATIONAL MONETARY FUND

The United Nations Monetary and Financial Conference, commonly known as Bretton Woods conference, was held in Bretton Woods, New Hampshire, USA in 1944 to regulate the international monetary and financial order after the conclusion of World War II. The conference resulted in the agreements to set up the International Bank for Reconstruction and Development (IBRD) - popularly known as World Bank; and the International Monetary Fund (IMF). The IMF was set up to foster monetary stability at global level. The IBRD was created to speed up post-war reconstruction. The two institutions are known as the Bretton Woods twins. They are specialized agencies of the United Nations.

IMF

The International Monetary Fund, a UN specialised agency, was established under the Bretton Woods Agreement in 1944 along with the World Bank. It has 189 members (2017). Nauru joined as the 189th member in 2016. Nauru is the second smallest member of the Fund, after Tuvalu. Nauru is a tiny island country in Micronesia, northeast of Australia.

It is headquartered in Washington and its Managing Director is Christine Lagarde. Christine Lagarde was asked to serve as IMF Managing Director for a second five-year term starting on from 2016.

IMF started functioning in 1947. India is a founding member.

IMF Objectives

IMF objectives are:

- To promote international monetary cooperation
- To facilitate balanced growth of international trade for the economic growth of all member countries
- To promote exchange rate stability ; maintain orderly exchange rate arrangements; and to advise against competitive exchange rate revaluation
- To help members in times of balance of payments crisis.

Governance Structure

The Board of Governors is the highest decision-making body of the IMF. It consists of one governor and one alternate governor for each member country. The governor is appointed by the member country and is usually the minister of finance or the head of the central bank. While the Board of Governors has delegated most of its powers to the IMF's Executive Board, it retains the right to approve quota increases, special drawing right (SDR) allocations, the admittance of new members and amendments to the Articles of Agreement and By-Laws. The Board of Governors also elects or appoints executive directors.

The IMF Board of Governors is advised by two ministerial committees, the International Monetary and Financial Committee (IMFC) and theDevelopment Committee. The IMFC meets twice a year, during the Spring and Annual Meetings. The Committee discusses matters of common concern affecting the global economy and also advises the IMF on the direction its work.

The Development Committee is tasked with advising the Boards of Governors of the IMF and the World Bank on issues related to economic development in emerging and developing countries.

What the IMF Does
In order to achieve the above objectives, the IMF monitors the world's economies, lends to members in economic difficulty and provides technical assistance.

To elaborate, the work of the IMF is of three main types:

- Surveillance which involves the monitoring of economic and financial developments of every member country and the provision of policy advice, aimed especially at crisis-prevention. Also, appraisal of the exchange rate policies of member countries. In the absence of surveillance, the financial volatility in the world today can become worse.
- Lends to countries with balance of payments difficulties.
- Provides countries with technical assistance and training in its areas of expertise.

The IMF also plays an important role in the fight against money-laundering and terrorism

Benefits to member countries of the IMF are many. They have access to information on the economic policies of all member countries, the opportunity to influence other members' economic policies, technical assistance in banking, fiscal affairs, and exchange matters, financial support in times of payment difficulties, and increased opportunities for trade and investment

Special Drawing Rights (SDRs)
IMF lends in its own artificial currency unit called the SDR. The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. Its value is based on a basket of five key international currencies, dollar, euro, yen, pound and chinese Yuan which was included in 2016. The basket now consists of the following five currencies with their respective weights: U.S. dollar 41.73%, Euro 30.93%, Renminbi (Chinese yuan) 10.92%, Japanese yen 8.33%, British pound 8.09%. The basket composition is reviewed every five years to ensure that it reflects the relative importance of currencies in the world's trading and financial systems. The weights assigned to each currency in the SDR basket are adjusted to take into account their current prominence in terms of international trade and national foreign exchange reserves.
The SDR value in USD terms in November 2017 is $1.403.

SDRs can be exchanged for national currencies. SDRs are not traded in the forex market like other national currencies but can be exchanged between countries. Private parties do not hold or use them.

SDR is neither a currency, nor a claim on the IMF. It is a potential claim on the freely usable currencies of IMF members. Holders of SDRs can obtain these currencies in exchange for their SDRs.

Renminbi in SDR Basket
China's currency, the renminbi was added to the "Special Drawing Rights" (SDR) basket of currencies from October 2016. Its inclusion is an important milestone in China's global financial integration and reflects growing international use and trading of renminbi. This is the first time in over 15 years that the list of currencies comprising the SDR has been altered. Since 1999, when the euro replaced the Deutsche mark and French franc, its value has been based on a basket of four

currencies: the U.S. dollar, the euro, the Japanese yen, and the British pound, that met the IMF's inclusion criteria.

Some criteria for inclusion in the basket: that the issuing country is among the largest exporters in the world and that its currency is "freely usable."

A currency is determined to be freely usable when it is widely used to make payments for international transactions and widely traded in the principal exchange markets.

Inclusion in the SDR will deepen the expectations that China will let market forces decide the yuan's exchange rate. China will also make its currency convertible. Renminbi will enjoy greater confidence in international markets and pick up as a reserve currency. That may bolster the value of renminbi but market forces will eventually decide valuations. If renminbi appreciates, it will help India's exports and also cut imports. Global trade also may be favourable relatively to India. India need not stock so many dollars and can diversify thus derisking its external account relatively.

IMF Quota

Upon joining, each member of the IMF is assigned a quota- the amount that the country has to pay to the IMF. It is based broadly on its relative size in the world economy. A member's quota guides:

- subscriptions: the amount the member is obliged to provide to the IMF.
- voting power
- the amount of financing a member can obtain from the IMF

Upon joining the IMF, a country normally pays up to one-quarter of its quota in the form of widely accepted foreign currencies (such as the U.S. dollar, euro, yen, or pound sterling) or Special Drawing Rights (SDRs). The remaining three-quarters are paid in the country's own currency.Quotas are denominated in Special Drawing Rights (SDRs), the IMF's unit of account. The largest member of the IMF is the United States, with a current quota (2017) of SDR82.99 billion (about US$118 billion). The IMF reviews members' quotas once in five years.

The International Monetary Fund (IMF) in 2016 announced implementation of its long-pending quota reforms, which will give more voting rights to emerging economies such as India in the functioning of the organisation.

With these reforms, India's quota in IMF would rise to 2.7 per cent, from the existing 2.44 per cent. Also, the voting share of India in IMF would increase to 2.6 per cent from 2.34 per cent. It makes India the eighth-largest shareholder.

The reforms also increase the financial strength of IMF, by doubling its permanent capital resources to 477 billion special drawing rights ($659 billion). For the first time, four emerging market countries — BRIC will be among the 10 largest members of the IMF. Other top 10 members include the US, Japan, and the four largest European countries (France, Germany, Italy, and the UK)

The IMF reviews members' quotas once in five years and the last such review took place in December, 2010.

IMF Borrowing Arrangements

While quota subscriptions of member countries are its main source of financing, the IMF can supplement its resources through borrowing if it believes that resources might fall short of members' needs. Through the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB), a number of member countries and institutions lend additional funds to the IMF.The GAB and NAB are credit arrangements between the IMF and a group of members and institutions to provide supplementary resources to the IMF to prevent or cope with problems of the international monetary system or to deal with an exceptional situation that poses a threat to international monetary stability.

India and NAB

India funded IMF for bailouts in financially-stricken Europe, marking a dramatic role reversal from 1991 when it had to borrow International Monetary Fund (IMF) to avert a balance of payments crisis.

GOI provided loans to the multilateral agency's New Arrangements to Borrow (NAB), a fund whose corpus was raised when the debt crisis in Europe showed no signs of abating after the Greek sovereign debt crisis.

India gave $10b in 2012 during the Mexico summit of the G-20 for the Eurozone crisis firewall.

How the IMF lends

A core responsibility of the IMF is to provide loans to member countries experiencing balance of payments problems. This financial assistance enables countries to rebuild their international reserves; stabilize their currencies; continue paying for debt servicing and imports; and restore conditions for strong economic growth while undertaking policies to correct the underlying problems. Unlike development banks, the IMF does not lend for specific projects.

The changing nature of IMF lending

The volume of loans provided by the IMF has fluctuated significantly over time. The oil shock of the 1970s and the debt crisis of the 1980s were both followed by sharp increases in IMF lending. In the 1990s, the transition process in Central and Eastern Europe and the crises in emerging market economies led to further surges of demand for IMF resources. Deep crises in Latin America kept demand for IMF resources high in the early 2000s. IMF lending rose again in late 2008 in the wake of the global financial crisis.

IMF Facilities

Over the years, the IMF developed various loan instruments, or facilities, that are tailored to address the specific circumstances of its diverse membership.

Low-income countries may borrow at a concessional interest rate through the Poverty Reduction and Growth Facility (PRGF).

The Exogenous Shocks Facility (ESF) provides policy support and financial assistance to low-income countries facing global shocks. For example, due to commodity prices falling etc.

Non-concessional loans are provided mainly through Stand-By Arrangements (SBA) for members who are in a BOP crisis. When a member takes SBA , he may opt for a long term Extended Fund Facility(EFF) which requires basic changes in the economic policy orientation to open up the economy; or he may not opt out of such EFF having used the SBA funds well and not needing any further assistance. The IMF also provides emergency assistance to support recovery from natural disasters and conflicts, in some cases at concessional interest rates.

Except for the PRGF and the ESF, all facilities are subject to the IMF's market-related interest rate. The amount that a country can borrow from the Fund—its access limit—varies depending on the type of loan, but is typically a multiple of the country's IMF quota. This limit may be exceeded in exceptional circumstances.

The IMF's analysis of global economic developments, contained in its World Economic Outlook, provide finance ministers and central bank governors with a common framework for discussing the global economy. Twice a year, it publishes the Global Financial Stability Report. The IMF's performance is assessed on a regular basis by an Independent Evaluation Office.

IMF and social protection

To incorporate social protection considerations into IMF operational work, it works with relevant partner institutions. The relevant institutions include: the World Bank, in the areas of poverty assessment, provision of social safety nets and basic social services, and improving the effectiveness and pro-poor orientation of public expenditures; the International Labour Organization (ILO), in the area of labor market and related social policy reforms; United Nations Children's Fund (UNICEF); the Organization for Economic Cooperation and Development (OECD); regional development banks; and bilateral aid agencies etc.

Social protection refers to policies designed to ensure income security and support to all—paying particular attention to the poor and the vulnerable. Anyone who needs social protection should be able to access it. Universal social protection includes: adequate cash transfers for all who need them, especially children; benefits and support for people of working age in case of maternity, disability, work injury or for those without jobs; and pensions for all older persons. This protection can be provided through social insurance, tax-funded social benefits, social assistance services, public works programs and other schemes guaranteeing basic income security.

IMF and Conditionalities

IMF conditionality is a set of policies or conditions that the IMF requires in exchange for financial resources. The IMF does require collateral from countries for loans but also requires the government seeking assistance to correct its macroeconomic imbalances in the form of policy reform. If the conditions are not met, the funds are withheld. Funds are given in installments linked to policy changes. Some conditionalities enforce structural adjustment wherein the economy is opened up to globalization and privatization. Some are of short term significance like expenditure cuts.

Some of the conditions can include:

- Cutting expenditures, also known as austerity.
- Devaluation of currencies,
- Trade liberalisation, or lifting import and export restrictions,
- open upto foreign direct investment and expand domestic stock markets
- Balancing budgets and not overspending,
- Removing price controls and state subsidies,
- Privatization
- deregulate the exchange rate
- currency convertibility
- downsize the government
- enact flexible labour sector reforms

- Enhancing the rights of foreign investors vis-a-vis national laws
- Improving governance and fighting corruption.

These conditions are known as the Washington Consensus.

These loan conditions ensure that the borrowing country will be able to repay the IMF and that the country will solve their balance-of-payment problems complementary to the global growth.

It is clear that most countries can not follow these policies with popular support. At the same time it must be understood that these policies should be selectively followed for the best results by avoiding populism and adhering to genuine welfarism.The Fund admitted that too many conditions were imposed on borrowers; it overstepped its mandate and expertise.Another criticism about the conditionalities is that the reforms suggested are the same for all countries irrespective of the causes of the crisis. India suggested that the IMF conditionalities must be more sensitive to the domestic realities of the member countries.

IMF and the global financial crisis

As the world economy had become engulfed in in 2008 in the worst crisis since the Great Depression, the IMF mobilized on many fronts to support its member countries, increasing its lending, using its cross-country experience to advise on policy solutions and introducing reforms to become more responsive to member countries' needs.It stepped up crisis lending, including a sharp increase in concessional lending to the world's poorest nations and provided analysis and targeted advice. The IMF overhauled its general lending framework to make it better suited to country needs.

The IMF created a broad financial safety net to limit the spread of the crisis.

Since 2010 the I.M.F. focused largely on Europe after the outbreak of the sovereign debt crisis that has threatened the euro.

Reforming the IMF

Role of IMF was criticized for the following reasons

- One size fits all policy under which it gives the same recipe for all ills
- Conditionalities that go with the loans that it disburses demand that spending on social sector be curtailed
- IMF Managing Director is invariably from a European country (the current MD, Chritine Lagarde is from France) and India and other emerging markets are demanding that it should not be geographically confined and be merit – based
- India wants that its economic power ,as it is emerging, should be recognized and so is given greater voting rights
- IMF failed to predict the global recession in 2008-09, let alone prevent it with its surveillance role

Reforms have taken place after the global crisis in some of these matters.

India and the IMF

India and the IMF have had a friendly relationship, which has been beneficial for both. The IMF provided India with loans over the years and this has helped the country in times of BOP pressure.

- India joined the IMF in 1945, as one of the IMF's original members.
- India accepted the obligations of Article VIII of the IMF Articles of Agreement on current account convertibility in 1994.
- India subscribes to the IMF's Special Data Dissemination Standard. Countries belonging to this group make a commitment to observe the standard and to provide information about their data and data dissemination practices.

While India has not been a frequent user of IMF resources, IMF credit has been instrumental in helping India respond to emerging balance of payments problems on two occasions. In 1981-82, India borrowed SDR 3.9 billion. In 1991-93, India borrowed a total of SDR 2.2 billion under two stand-by arrangements (SBA), and in 1991 it borrowed SDR 1.4 billion under the Contingency Compensatory Financing Facility (CCFF).

The relationship between the IMF and India has grown strong over the years. In fact, the country has turned into a creditor to the IMF and has stopped taking loans from it. We lent $10b in 2012(Mexico G20 Summit) to the IMF to bail out the Eurozone countries. India needs IMF as its globalizing economy carries risks like any other; it also needs IMF for technical training and capacity building; it needs to contribute to global monetary stability for its own enlightened self interest; it needs the SDR to diversify its forex holdings for greater safety.

SDRs as an alternative to the US dollar as global reserve currency
The international monetary system needs reform as was made evident by the 2008 global financial crisis. Dollar as a global reserve currency is neither viable nor desirable to the same degree as before Global imbalances- counties like China make and export goods and have current account surpluses and USA imports them and depends on them with huge and unmanageable CADs.

John Maynard Keynes once proposed a global currency, the Bancor, to be placed at the centre of the international monetary system. The idea never caught on. Instead, we now have a system dominated by holdings of US dollars. This has disadvantages. It creates tension due to the use of a national currency, the dollar, as the global currency. This can lead to global volatility as a result of growing US twin deficits. These deficits generate excessive indebtedness, both external and internal. US monetary policy impacts the whole world though it is made with the US interests in mind.

Some experts argue that the global role of SDRs should be increased as it would avoid help diversify the risk from forex holdings; lessen chances of global financial volatility; make US policies relatively less important for the world etc. Global stability enhances as dollar worries recede. However, SDRs can only supplement the dollar and other global reserve currencies and gold as the SDR is the creation of US and the west within the IMF. If SDR becomes a rival to dollar and yen, it may not receive the support of these countries. Nor are the SDRs created in such huge numbers as is warranted to play the larger role that some are recommending.

Chiang Mai Initiative

The **Chiang Mai Initiative** (CMI) is a multilateral currency pooling arrangement among the ten members of theAssociation of Southeast Asian Nations (ASEAN), the People's Republic of China (including Hong Kong), Japan, and South Korea. It draws from a foreign exchange reserves pool worth US$240 billion that was launched in 2010.

After 1997 Asian Financial Crisis, member countries started this initiative to manage regional short-term liquidity problems and to facilitate the work of other international financial arrangements and organisations like International Monetary Fund. It has never been used as there has not been a crisis since 1997 asian financial crisis.

BRICS CRA

The **BRICS Contingent Reserve Arrangement (CRA)** is a pool of foreign currency reserves for the member countries to draw from when they face any balance of paymemnts crisis- actually or potentially. Each member contributes to the pool which is a safety net. It was established in 2015 by the BRICS countries Brazil, Russia, India, China and South Africa. The legal basis is formed by the Treaty for the Establishment of a BRICS Contingent Reserve Arrangement, signed at Fortaleza, Brazil in 2014. It entered into force upon ratification by all BRICS statesin 2015. It became operational in 2016.

The objective of this reserve is to provide protection against global liquidity pressures when members' national currencies are adversely affected by global financial pressures. It is an example of south-south cooperation- that is cooperation among developing countries. It and implies a commitment from each member that it will support the other during crisis. It plays a role similar to the IMF but the BRICS nations say that it is compelemtary to the IMF. Some see CRA as a competitor to the International Monetary Fund (IMF). That is debatable though.

CRA has a capital of $100 billion which is distributed as follows:.

Country	Capital contribution (billion USD)	Access to Funds (billion USD)	Voting Rights
Brazil	18	18	18.10
China	41	21	39.95
India	18	18	18.10
Russia	18	18	18.10
South Africa	5	10	5.75
Total	100	85	100.00

Can CRA be a rival of IMF?

Russian President Vladimir Putin opined that the new BRICS contingent reserve arrangement (CRA) could be a substitute for the IMF, saying that it "creates the foundation for an effective protection of our national economies from a crisis in financial markets."

However, CRA is said to be complementary to IMF as IMF is steeped in assisting the crisis ridden Eurozone countries. Also, with globalization and huge private flows, the need for safety nets is much more than earlier. CRA does not have such funds.

Under the terms of the arrangement, each country can only borrow a part of its contribution before going to the IMF for a stand by arrangement with the IMF. It works out to a very small amount which is grossly inadequate when compared to Russia and Brazil's crisis-borrowing from the IMF over the past twenty years. The IMF approved lending to Russia of $38 billion (SDR 24.786 billion) in the 1990s. In 2002 alone, the IMF approved a 15-month stand-by credit arrangement of about $30 billion for Brazil. Net private financial flows to emerging markets today are about 10 times what they were in 2002, meaning that the size of the loans necessary to address balance of payments financing problems would be even larger now.The BRICS countries are intensely aware of it as revealed in vast pools of foreign exchange reserves that they maintain. The small amont from the BRICS CRA would make only a symbolic difference in a genuine financial crisis. Thus, CRA is only complementary to IMF as of now.

WORLD BANK GROUP

The World Bank Group (WBG) is a family of five international organizations .The Bank came into existence in 1945 following international ratification of the Bretton Woods agreements, which emerged from the United Nations Monetary and Financial Conference (1944). Commencing operations in 1946, it began undertook post-war reconstruction of western Europe. Its current role is different as its focus is to lend to developing countries to rid them of poverty.

The Group's headquarters are in Washington. Its head is called President and today it is Jim Yong Kim, South Korean-American physician and anthropologist who has served as the 12th President of the World Bank since 2012 and is on second 5 year term. The President of the World Bank is conventionally an American. There are 189 countries in the WB today.

It is responsible for the preparation of the World Development Report.

World Bank Group is owned by its member governments which subscribe to its basic share capital, with votes proportional to shareholding. Membership gives certain voting rights that are the same for all countries but there are also additional votes which depend on financial contributions to the organization.

A country has to first join IMF before it can be a member of the WB.

World Bank Group consists of five agencies which are:

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The term "World Bank" generally refers to the IBRD and IDA, whereas the World Bank Group is used to refer to all the five institutions collectively.

The World Bank's (i.e. the IBRD and IDA's) activities are focused on developing countries, in fields such as human development (e.g. education, health- Swachh Bharat Mission, Sarva Shiksha Abhiyan etc), agriculture and rural development (e.g. irrigation, rural services -Pradhan Mantri Krishi Sinchayee Yojana (PMKSY), Watershed Management Project "Neeranchal" etc), poverty alleviation (Deen Dayal Antyodaya Yojana-National Rural Livelihoods Mission (DAY-NRLM)), environmental protection (e.g. pollution reduction, establishing and enforcing regulations- National Ganga River Basin Project etc), infrastructure (e.g. roads, urban regeneration, electricity, ports Port Modernization & New Port Development under Sagarmala), and governance (e.g. anti-corruption, legal institutions development).

The IBRD and IDA provide loans at soft rates to member countries, as well as grants to the poorest countries. Loans or grants for specific projects are often linked to wider policy changes in the sector or the economy. For example, a loan to improve coastal environmental management may be linked to development of new environmental institutions at national and local levels and the implementation of new regulations to limit pollution.

The activities of the IFC and MIGA include investment in the private sector and providing insurance respectively. (Details ahead)

Difference between WB and WB Group

The World Bank differs from the World Bank Group, in that the World Bank comprises only two institutions:

- International Bank for Reconstruction and Development (IBRD)
- International Development Association (IDA)

The IBRD focuses on middle income and creditworthy poor countries, while IDA focuses on the poorest countries in the world.

World Bank Group incorporates these two in addition to three more:

- International Finance Corporation (IFC)
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IBRD

The International Bank for Reconstruction and Development (IBRD) is one of five institutions that comprise the World Bank Group. The IBRD is an international organization whose original mission was to finance the reconstruction of nations devastated by World War II. Now, its mission has expanded to fight poverty by means of financing states.

IDA

The International Development Association (IDA), is the part of the World Bank that helps the world's poorest countries. It complements the World Bank's other lending arm — the International Bank for Reconstruction and Development (IBRD) — which serves middle-income countries with capital investment and advisory services.

IDA was created in 1960 and is responsible for providing long-term, interest-free loans to the world's 80 poorest countries. IDA lends money on concessional terms. This means that IDA credits have a zero or very low interest charge and repayments are stretched over 25 to 40 years, including a 5- to 10-year grace period. IDA also provides grants to countries at risk of debt distress. In addition to concessional loans and grants, IDA provides significant levels of debt relief through the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI).

While the IBRD raises most of its funds on the world's financial markets, IDA is funded largely by contributions from the governments of its richer member countries. Additional funds come from IBRD's and IFC's income and from borrowers' repayments of earlier IDA credits.

Donors meet every three years to replenish IDA funds and review IDA's policies. The most recent replenishment of IDA's resources, the eighteenth (IDA18), has a size of $75 billion to finance projects over the three-year period from 2017 to 2020.

IDA loans address primary education, basic health services, clean water supply and sanitation, environmental safeguards, business-climate improvements, infrastructure and institutional reforms. These projects are intended to pave the way toward economic growth, job creation, higher incomes and better living conditions.

Eligibility for IDA support depends on a country's relative poverty, defined as per capita income below an established threshold and updated annually ($1,165 in fiscal year 2018). IDA also supports some countries, including several small island economies, that are above the operational cutoff but lack the creditworthiness needed to borrow from the International Bank for Reconstruction and Development

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(IBRD). Some countries, such as Nigeria and Pakistan, are IDA-eligible based on per capita income levels and are also creditworthy for some IBRD borrowing. They are referred to as "blend" countries.

IDA has 173 members.

IFC

The International Finance Corporation (IFC) promotes private sector investment in its member countries, particularly developing countries as a way to reduce poverty and improve people's lives.

IFC is a member of the World Bank Group and is headquartered in Washington. It shares the primary objective of all World Bank Group institutions: to improve the quality of the lives of people in its developing member countries.

IFC is the largest multilateral source of loan and equity financing for private sector projects in the developing world.

India is one of the founder members of the IFC. IFC finances investments with its own resources and by mobilizing capital in the International financial markets. India has 3.38% of the voting power. Over the past few years, in line with a strong strategic focus on India, IFC has augmented its program and portfolio in India by investing in high impact projects. India represents IFC's single-largest country exposure. IFC is working in the the following areas by promoting:

- investment climate for private sector development and inclusive growth;
- financial inclusion by working on financial services and initiatives related to the sustainability of the MFI sector including micro-credit bureau, risk mitigation initiatives, code of conduct setting etc;
- renewable energy (solar and biomass) and cleaner production as well as key subsectors like agribusiness; and
- developing PPP transactions with focus on social services (health and education) and climate change impact projects.
- Infrastructure has been stepped up in India in the last few years and currently accounts for about US$1.3 billion of current committed portfolio.

IFC floated a rupee bond, masala bond in the global credit market to raise a billion dollars that was used to assist the Indian companies in 2014.

MIGA

The Multilateral Investment Guarantee Agency (MIGA) is a member of the World Bank group. It was established to promote foreign direct investment into developing countries. MIGA promotes foreign direct investment into developing countries by insuring investors against political risk, advising governments on attracting investment etc. India is a member.

MIGA can cover only new investments. These include:

- new, greenfield investments;
- new investment contributions associated with the expansion, modernization, or financial restructuring of existing projects; and
- acquisitions involving privatization of state enterprises.

ICSID

The International Centre for Settlement of Investment Disputes (ICSID) is an institution of the World Bank group based in Washington. It provides facilities for the conciliation and arbitration of investment disputes between member countries and individual investors. India is not a member.

India and the World Bank

The advantage of borrowing from the World Bank is the low cost and stable financing it provides with longer maturity periods that better match India's investment needs.Financing through the International Development Association (IDA), the Bank's concessional lending arm, is provided for as low as 0.75% p.a., repayable over a period of 35 years, inclusive of a 10 year grace period.

India benefited from the WB funds in education (Sarva Shiksha Abhiyan); health care; health care; power; agriculture; irrigation; natural gas, roads and other sectors.

India has been borrowing from the World Bank (through IBRD and IDA) for various development projects in areas of poverty alleviation, infrastructure, rural development, human resource development, etc. IDA funds are one of the most concessional external loans for GOI and are used largely in social sector projects that contribute to the achievement of SDGs. IBRD funds are semi - concessional and of a longer maturity and therefore, cheaper than commercial external borrowings.

Since 1949 when India took the first assistance from World Bank, the Bank's cumulative commitment to India stands at US$ 104 billion (US$ 50 billion under IBRD and US$54 billion under IDA) by 2016.

IMF and WB

There are similarities and differences between them. Both are owned and directed by the governments of member nations. Both institutions concern themselves with economic issues and concentrate their efforts on broadening and strengthening the economies of their member nations. The two institutions hold joint annual meetings, which the news media cover extensively. Both have headquarters in Washington, D.C. Unless a country is a member of IMF, it can not be admitted to WB.

Despite these similarities, however, the Bank and the IMF remain distinct. The fundamental difference is this: the Bank is primarily a development institution; the IMF is a cooperative institution that seeks to maintain an orderly system of payments and receipts between nations. Each has a different purpose, a distinct structure, receives its funding from different sources, assists different categories of members and strives to achieve distinct goals.

The International Monetary Fund and the World Bank at a Glance	
International Monetary Fund	**World Bank**
• Single institution • oversees the international monetary system • promotes exchange stability and orderly exchange relations among its member countries • assists all members--both industrial and developing countries--that find themselves in temporary balance of payments difficulties by providing short- to medium-term credits • draws its financial resources principally from the quota subscriptions of its member countries • has at its disposal fully paid-in quotas now totaling USD 650 billion	• includes IBRD and IDA • seeks to promote the economic development of the world's poorer countries • assists developing countries through long-term financing of development projects and programs • provides to the developing countries • encourages private enterprises in developing countries through its affiliate, the International Finance Corporation (IFC) • acquires most of its financial resources by borrowing on the international bond market • members' subscriptions are about USD 250 billion . It also raises from bond market and has profits from its assets.

Bretton Woods 2.0

The original Bretton Woods conference purpose was post–WWII reconstruction. The arrangements need redefinition and refocus in the post-recession world since 2008. The broad mandate should be

- The two institutions need to be democratised
- Merit based appointment to the two institutions
- IMF should have an expanded role and be the lender of last resort. SDRs should be more central to global monetary system
- World Bank should be refocused with clear goals: helping the poorest countries achieve the SDGs to reduce poverty, hunger and disease.
- global trade agenda should be reoriented to help the poorest countries to be more productive; global trade should promote environmental sustainability, to help enforce compliance with reduced carbon emissions and protection of endangered biodiversity
- the new global financial structure should help to rescue the world from human-induced climate change.

G-20

The Group of Twenty (G-20) Finance Ministers and Central Bank Governors was established in 1999 to bring together systemically important industrialized and developing economies to discuss key issues in the global economy. The G-20 promotes open and constructive discussion between industrial and emerging-market countries on key issues related to global economic stability. By contributing to the strengthening of the international financial architecture and providing opportunities for dialogue on national policies, international co-operation, and international financial institutions, the G-20 helps to support growth and development across the globe.The G-20 was created as a response both to the financial crises of the late 1990s and to a growing recognition that key emerging-market countries were not adequately included in the core of global economic discussion and governance. The G-20 is made up of the finance ministers and central bank governors of 19 countries and EU:

- Argentina
- Australia
- Brazil
- Canada
- China
- France
- Germany
- India
- Indonesia
- Italy
- Japan
- Mexico
- Russia
- Saudi Arabia
- South Africa
- Republic of Korea
- Turkey
- United Kingdom
- United States of America

To ensure global economic fora and institutions work together, the Managing Director of the International Monetary Fund (IMF) and the President of the World Bank, plus the chairs of the International Monetary and Financial Committee and Development Committee of the IMF and World Bank, also participate in G-20 meetings on an ex-officio basis. Together, member countries represent around 90 per cent of global gross national product, 80 per cent of world trade (including EU intra-trade) as well as two-thirds of the world's population. The G-20's economic weight and broad membership gives it a high degree of legitimacy and influence over the management of the global economy and financial system.

To tackle the financial and economic crisis that spread across the globe in 2008, the G20 members were called upon to further strengthen international cooperation. Accordingly, the G20 Summits have been held in Washington in 2008, in London and Pittsburgh in 2009, and in Toronto and Seoul in 2010.

The concerted and decisive actions of the G20, with its balanced membership of developed and developing countries helped the world deal effectively with the financial and economic crisis, and the G20 has already delivered a number of significant and concrete outcomes:G-20 (like the G-7) has no permanent staff of its own. The G-20 chair rotates among members, and is selected from a different regional grouping of countries each year. In 2016 the G-20 chair was China. For 2017,it is Turkey. The **2018 G20 Buenos Aires summit** is the thirteenth meeting of Group of Twenty (G20). Location is the city of Buenos Aires (Argentina).

It is normal practice for the G-20 finance ministers and central bank governors to meet once a year.

G-20 and G-7

The G-7 was established in 1976 as an informal forum of seven major industrial economies: Canada, France, Germany, Italy, Japan, the United Kingdom and the United States of America. Russia joined later. The G-7 conducts dialogue and seeks agreement on current economic issues on the basis of the comparable interests of those countries. The G-20 was established in 1999 and reflects the diverse interests of the systemically significant industrial and emerging-market economies. It has a high degree of representativeness and legitimacy on account of its geographical composition (members are drawn from all continents) and its large share of global population (two-thirds) and world GNP (around 90 per cent). The G-20's broad representation of countries at different stages of development gives its consensus outcomes greater impact than those of the G-7.

International Financial Architecture For The 21st Century

The institutions involved are:

- G-20
- FSB: In response to the global financial crisis, the international financial community established the Financial Stability Board (FSB). The FSB aims to address vulnerabilities and develop and implement strong regulatory, supervisory and other policies in the interest of financial stability.
- BIS, Basel.
- WB and ADB provide economic assistance so that the long term economic underpinings of global economy are strengthened.
- IMF

ADB

ADB is an international development finance institution whose mission is to help its developing member countries reduce poverty and improve the quality of life of their people.

Headquartered in Manila, and established in 1966, ADB is owned and financed by its 67 members, of which 48 are from the asia and pacific and 19 are from other parts of the globe. ADB's main partners are governments, the private sector, nongovernment organizations, development agencies, community-based organizations, and foundations.

Under Strategy 2020, a long-term strategic framework adopted, ADB follows three complementary strategic agendas: inclusive growth, environmentally sustainable growth, and regional integration. In pursuing its vision, ADB's main instruments comprise loans, technical assistance, grants, advice, and knowledge. ADB President is Haruhiko Kuroda.

ECB

The eurozone (euro area) is a monetary union of 19 of the 28 European Union (EU) member states which have adopted the euro (€) as their common currency and sole legal tender. The other nine members of the European Union continue to use their own national currencies. The monetary authority of the eurozone is the ECB.

The European Central Bank (ECB) is the institution of the European Union (EU) which administers the monetary policy of the 19 EU Eurozone member states. It is thus one of the world's most important central banks. The bank was established by the Treaty of Amsterdam in 1998, and is headquartered in Frankfurt, Germany.

OECD

The Organisation for Economic Co-operation and Development (OECD) is an international economic organisation of 34 developed countries to stimulate economic progress and world trade. It defines itself as a forum of countries committed to democracy and the market economy, providing a platform to compare policy experiences, seeking answers to common problems, identifying good practices, and co-ordinating domestic and international policies of its members. Its membership includes non-European states. The OECD's headquarters are in Paris. India is on the Governing Board of the OECD's Development Centre and it also participates as an observer in some OECD Committees.

NDB

The New Development Bank (NDB), BRICS Bank, is a multilateral development bank operated by the BRICS states. During the sixth BRICS Summit in Fortaleza (2014), the leaders signed the Agreement establishing the New Development Bank (NDB).In the Fortaleza Declaration, the leaders stressed that the NDB will strengthen cooperation among BRICS and will supplement the efforts of multilateral and regional financial institutions for global development, thus contributing to collective commitments for achieving the goal of strong, sustainable and balanced growth. NDB intends to mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries

According to the Agreement on the NDB, "the Bank shall support public or private projects through loans, guarantees, equity participation and other financial instruments. "NDB" shall cooperate with international organizations and other financial entities, and provide technical assistance for projects to be supported by the Bank."

The initial authorized capital of the bank is $100 bln .The initial subscribed capital of the NDB is $50 bln which is equally distributed among the founding members. The Agreement on the NDB specifies that the voting power of each member will be equal to the number of its subscribed shares in the capital stock of the bank. K. V. Kamath, the President of the NDB. The bank is headquartered in Shanghai, China

The first president is from India. Inaugural Chairman of the Board of directors will come from Brazil Inaugural chairman of the Board of Governors will be Russian.

The 7th BRICS summit in July 2015 marked the entry into force of the Agreement. K. V. Kamath was appointed as President of the Bank.

The Loan Agreement for New Development Bank (NDB) financing of US$ 350 Million for Development and Upgradation of Major District Roads Project in Madhya Pradesh was signed between Government of India and the New Development Bank (NDB) in 2017. This is the First Loan Agreement for NDB assisted project in India.

AIIB

The AIIB was established as a new multilateral financial institution aimed at providing "financial support for infrastructure development and regional connectivity in Asia." It has its headquarters in Beijing. Its goals are also to boost economic development in the asia, create wealth, provide infrastructure and promote regional cooperation and partnership. AIIB will "provide or facilitate financing to any member, or any agency, instrumentality or political subdivision thereof, or any entity or enterprise operating in the territory of a member, as well as to international or regional agencies or entities concerned with economic development of the Asia region."

The value of AIIB's authorized capital amounts to $100 billion, with almost $30 billion invested by China. At its launch in January 2016, there were 57 signatories to AIIB's Articles of Agreement, and in mid- 2017, it has 80. China, India and Russia are the three largest shareholders of AIIB with china holding almost 30% of the share and India about a quarter of china's holding.

The Board of Directors of the Asian Infrastructure Investment Bank (AIIB) approved a loan of US$160 million in support of the Andhra Pradesh – 24x7 Power for All project in 2017 with the objective to strengthen the power transmission and distribution system in the State of Andhra Pradesh.

GATT AND WTO

The General Agreement on Tariffs and Trade (GATT) is an agreement that was arrived at in 1947 by 23 countries to establish a free and fair international trading regime among member countries based on dismantling of trade barriers -tariffs or non-tariff restrictions like quotas. It came into existence in 1948. India was a founding member. GATT progressed- expanded its scope in terms of areas covered - by a series of "trade rounds"- negotiations centered around a specific set of issues over a period of a few years leading to agreement among members are called a round. GATT was headquartered in Geneva, Switzerland.

Eight rounds of such negotiations were held under GATT:

1. Havana Round (1947) with 23 countries brought into being the. GATT.
2. Annecy (France) Round (1949) (France)
3. Torquay Round(England) (1950) (England)
4. Geneva Fourth Round (1956)
5. Dillon Round (1960-1961) was held in Geneva and were named after Under Secretary of State, Douglas Dillon, who first proposed the talks
6. Kennedy Round (1962-1967) was also held in Geneva but was named after the US President John F Kennedy, in his memory.
7. Tokyo Round (1973-1979)
8. Uruguay Round (1986-94)

WTO was set up as a result of the Uruguay Round. WTO came into existence in 1995. Doha Round is the first round under the WTO (2001). It is yet to complete. It is the 9th round.

As can be seen from the above, the Uruguay round lasted the longest (Doha round-2001 onwards, is taking longer) as it took place in a radically different set of circumstances- communism was collapsing; the model of western industrial democracies was becoming more acceptable to the developing countries; USSR disintegrated leaving the third world so much weaker in world diplomacy. New areas were brought into the agenda- intellectual property rights; agriculture; services; foreign direct investment and so on. Initially, the developing countries were reluctant and resisted the expansion of the agenda. But partly due to western force; lack of unity among the developing countries; and partly due to seeing benefits for themselves, they agreed. There was no agreement after protracted negotiations. The Director General of the GATT was asked to draft an agreement for the consideration of the members. It was called Dunkel Draft, named after the Director General Arthur Dunkel. After attaining consensus, it was made into the Marrakesh Treaty and was signed in Marrakesh (Morocco) in 1994 and paved the way for the establishment of World Trade Organization (WTO) at the beginning of 1995.

GATT and WTO

GATT is different from WTO in two essential respects- GATT is a treaty while WTO is an organization. GATT had no dispute settlement process while WTO has. The GATT was essentially concerned with traditional trade issues such as tariffs and quotas in international trade. WTO encompasses many more areas. GATT had only a relatively small secretariat with no institutional foundation to implement these rules.

The World Trade Organization that came into existence at the beginning of 1995 replaces the General Agreement on Tariffs and Trade (GATT). Like its predecessor, it is headquartered in

Geneva, Switzerland. It has 164 members (2017). Afghanistan became the 164th WTO member early in 2016. Liberia was the 163rd member. Kazakhstan was the 162nd member.

In addition to states, the European Union is a member. WTO members do not have to be full sovereign nation-members. Instead, they must be a customs territory with full autonomy in the conduct of their external commercial relations. Thus Hong Kong and Taiwan became WTO members. Iran is the biggest economy outside the WTO.

Roberto Azevedo from Brazil is the current Director-General of the World Trade Organization. DG term is 4 years.

The WTO states that its aims are to increase international trade by slashing trade barriers and providing a platform for the negotiation of trade and related issues. Basically, it sets up a rule based multilateral trading system to liberalise the regime and boost world trade.

Principles guiding the WTO are:

- non-discriminatory and rule-based trading system where foreign goods and services should receive the same treatment as domestically sourced ones
- trade barriers (tariffs and non-tariff barriers) should be dismantled and international trade should be free
- less developed countries should receive preferential terms of trade

Unlike other organizations like World bank and the International Monetary Fund(IMF) where there is weighted voting- a country has as much voting power as it contributes financially-, WTO has a 'one country one vote' system making it relatively democratic. Decisions are taken by consensus.

WTO is not part of the United Nations and acts autonomously at the behest of its membership. A global arrangement exists between the two, based on the relationship that had existed between the UN and the WTO's predecessor, the General Agreement on Tariffs and Trade (GATT). This includes provision and exchange of information, representation at each other's meetings and cooperation between the secretariats.

Structure of WTO

Highest level decision-making body of the WTO is the Ministerial Conference, which usually meets once every two years with each member country represented by the commerce minister. Next in authority is the General Council which carries out the decisions of the Ministerial Conferences. It is seated in Geneva. It has representatives (usually ambassadors or equivalent) from all member governments and has the authority to act on behalf of the ministerial conference

There are two other bodies apart from the General Council. They are the Dispute Settlement Body composed of all members, usually represented by ambassadors or equivalent; and Trade Policy Review Body (TPRB) - the WTO General Council meets as the Trade Policy Review Body to undertake trade policy reviews of Members.

Below the above three bodies, at the third level, there are Councils for Trade. The Councils for Trade work under the General Council. There are three councils - Council for Trade in Goods, Council for Trade-Related Aspects of Intellectual Property Rights, and Council for Trade in Services. Apart from these three councils, six other bodies report to the General Council on issues such as trade and development, the environment, regional trading arrangements and administrative issues.

At the fourth level from the top, there are subsidiary bodies- various committees and working groups related to various fields.

Dispute Settlement

World Trade Organization (WTO) has a dispute settlement body (DSB) that settles trade disputes among members. Disputes can arise from trade policies of members that are violative of the WTO rules. WTO procedures require sixty days of 'consultations' among the disputants to resolve the dispute failing which a disputes panel is set up.

There is no separate DSB but the General Council which is the second highest body in the organization works as the DSB while giving verdict on the trade dispute. DSB conclusion can be challenged in an appellate body. After the ruling, the erring nation is directed to make changes in its laws to make them WTO-compliant within a reasonable time. If the 'erring country' does not correct its laws, the complainant country is allowed to take cross retaliatory measures.

On the face of it, it gives all member countries a level playing field as the process is multilateral. But the fact is that there is no punishment for the erring country and; poor countries can not retaliate against rich countries.

Chronology

- 1986-1994 - Uruguay Round of GATT negotiations were deadlocked. Dunkel Draft was the basis for the resolution. It led to the Marrakesh Agreement (Morocco) that resulted in the WTO coming into force.
- January 1, 1995 - The WTO came into existence.
- 1996 - The first ministerial conference in Singapore. Birth of "Singapore issues".
- 1998 – Second ministerial conference in Geneva, Switzerland.
- 1999 – Third ministerial conference in Seattle, Washington, USA
- 2001 - Fourth ministerial conference in Doha, capital of Qatar. A new Round of trâde talks begin called Doha Development Round.
- 2001 - The People's Republic of China joined the WTO after 15 years of negotiations 2002
- 2003 – Fifth ministerial conference in Cancún, Mexico. Formation of G20. Rejection of the 'overloading' of the Doha agenda with Singaporé issues though trade facilitation which is one of the Singapore issues was accepted by all
- 2005 – Sixth Ministerial at Hong Kong once again failed to deliver results
- Seventh Ministerial 2009 in Geneva
- 8th in 2011 in Geneva
- 9th Ministerial in Bali 2013 December
- 10th Ministerial in 2015 December in Nairobi
- 11th Ministerial Conference in Buenos Aires, Argentina in 2017 December

There are three basic principles built into the WTO:

1. National treatment
2. Most favoured nation(MFN)
3. Special and differential treatment

National Treatment

National treatment is a basic principle of GATT/WTO that prohibits discrimination between imported and domestically produced goods with respect to internal taxation or other government regulation. The example is solar panels case of India in 2016.

MFN

In international trade, MFN treatment means normal trading relations between two countries. All WTO members are statutorily obliged to grant one another the MFN status. Favour one, favour all. MFN means treating one's trading partners equally on the principle of non-discrimination.

MFN is so important that it is the first article of the General Agreement on Tariffs and Trade (GATT), which governs trade in goods. MFN is also a priority in the General Agreement on Trade in Services (GATS) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

Some exceptions are allowed. For example, countries can set up a free trade agreement that applies only to goods traded within the group — discriminating against goods from outside. Or they can give developing countries special access to their markets. Or a country can raise barriers against products that are considered to be traded unfairly from specific countries. In general, MFN means that every time a country lowers a trade barrier or opens up a market, it has to do so for the same goods or services from all its trading partners — whether rich or poor, weak or strong.

MFN has benefits in line with the WTO aims increases trade. A country that grants MFN on imports will source from the best country-cost and quality. But if the most efficient producer is outside the group of MFN and is charged higher rates of tariffs, the importer loses. This leads to economic costs for the importing country, which can outweigh the gains from free trade.

- Small and developing countries benefit as they are automatically granted MFN status and gain thus – a privilege that they can not get otherwise due to their weak bargaining power in global trade. They gain in imports and exports.
- having one set of tariffs for all countries simplifies the rules and makes them more transparent
- MFN prevents domestic special interests from obtaining protectionist measures.
- MFN clauses uphold non-discrimination and thus free trade .

There are exceptions to MFN. Regional trade blocs such as the European Union and the North American Free Trade Agreement (NAFTA), which have lowered or eliminated tariffs among the members while maintaining tariff walls between member nations and the rest of the world. Trade agreements usually allow for exceptions to allow for regional economic integration.

WTO allows departures from the MFN principle.

- imports from poor countries are allowed at lower/zero tariffs (Generalised System of Preferences GSP- (Read ahead)
- preferential and free trade arrangement among countries of a region and others are allowed- at concessional and free rates respectively

- Article XXIV of the GATT allows Pakistan and India to depart from particular provisions of the Agreement in their bilateral relations pending the establishment of trade ties between them on a definitive basis. It is under this clause that Pakistan has not given MFN status to India, though the latter has extended such status to the former.

India granted MFN status to Pakistan in 1996. Pakistan has not granted India MFN status but offered Non-Discriminatory Market Access (NDMA) agreement.

India, Pakistan and GATT Rules

Paragraph 11 of GATT Article XXIV says:
"Taking into account the exceptional circumstances arising out of the establishment of India and Pakistan as independent States and recognizing the fact that they have long constituted an economic unit, the contracting parties agree that the provisions of this Agreement [i.e., GATT] shall not prevent the two countries from entering into special arrangements with respect to the trade between them, pending the establishment of their mutual trade relations on a definitive basis.*

*Measures adopted by India and Pakistan in order to carry out definitive trade arrangements between them, once they have been agreed upon, might depart from particular provisions of this Agreement, but these measures would, in general, be consistent with the objectives of the Agreement."

Qatar
Qatar in 2017 has filed a legal complaint at the World Trade Organisation to challenge a trade boycott by Saudi Arabia and others but they cited national security as the reason which is allowed under WTO.

Russia, Ukraine and WTO

In 2017, Russia sent a request to the World Trade Organization seeking to hold consultations over Ukraine's sanctions against Moscow, in place since 2014. It was regarding restrictions on Russian goods, services, transit and other issues imposed by Ukraine in response to Russia's role in the Ukraine crisis. Ukraine justified them with reference to national security.

S&D Provisions
The WTO Agreements contain special provisions which give developing countries special rights and which give developed countries the possibility to treat developing countries more favourably than other WTO Members. These special provisions include, for example, longer time periods for implementing Agreements and commitments.They are referred to as "special and differential treatment" (S&D) provisions.

WTO Agreements
The WTO oversees about 60 different agreements which have the status of international legal texts. Member countries must sign and ratify all WTO agreements on accession. Important among the agreements are the following.

Agreement on Agriculture (AoA)
Its three pillars are:

- domestic support
- export subsidies
- market access

Domestic support refers to the subsidies that governments give to the farmers like food, fertilizer, power, water etc. The domestic subsidies are grouped into three classes called "boxes": Green Box, Amber Box and Blue Box- the first two being borrowed from the traffic light colours.

Green box includes subsidies on which there are no limits as they are not considered trade distorting.To qualify for the green box, WTO says a subsidy must not distort trade, or at most cause minimal distortion.These green box subsidies must be government-funded — not by charging consumers higher prices and they must not involve price support. They tend to be programs that are not directed at particular products, and they may include direct income supports for farmers that are decoupled from current production levels and/or prices. Examples: environmental and conservation programs, research funding, extension services, food stamps and disaster relief.

Amber box is used for all domestic support measures considered to distort production and trade.

WTO members are required to maintain their amber box supports to within five to 10 percent of their value of production- 5% for the developed countries and 10% for developing countries like India.Subsidies that are considered to be trade distorting and are subject to limitations and isciplines fall into the amber box.

Blue box subsidies are direct payments under a production limiting program. There is no limit on them.

India and the amber box

For some year now, India has been having difficulty at the WTO to continue to give agricultural subsidies. India has MSP, minimum support price, programme under which Government pays the farmer for the grain he sells to the Food Corporation of India which is used to run the Public Distribution System (PDS) under which low income and poor people are supplied grain at cheap rates. The subsidy involved thus is to make agriculture investment-worthy, food security, price stabilization and so on. But the WTO put a cap on the subsidy which India is accused of having exceeded. India questions the methodology of calculating the subsidy. But there is no permanent solution that WTO offered to India's challenge. At the 9th ministerial in Bali (2013), developed countries had agreed to a 'peace clause' for India's stockholding of grain under which even if we are not conforming to the rules, no member will challenge this until 2017.

India says export subsidies given by USA and Europe make their agricultural goods so cheap that their markets are virtually inaccessible to exports from developing countries. The earlier gains expected by the developing countries from a genuinely free international trade in agricultural goods have not come about as the advanced countries are least inclined to reduce the subsidies to the statutory levels. It is one of the 'implementational concerns' in WTO being discussed in the Doha round.

G33

The G33 ("Friends of Special Products" in agriculture) is a group of 48 developing countries including India and China. It came into existence before the 2003 Cancun ministerial conference.They have common concerns in agriculture.

- It has interests of farmers and food production interests- "defensive" interests regarding agriculture in relation to World Trade Organisation negotiations. Its demands are
  - limit the level of market opening to agri-imports of developing countries
  - creation of a "special products" exemption, which would allow developing countries to exempt certain products from tariff reductions
  - "special safeguard mechanism" which would permit tariff increases in response to import surges in agricultural goods

In 2017 the G-33 countries made two demands

a. MSP programmes to help farmers during times of distress should not be treated as trade-distorting

b. Calculation of the quantum of subsidies on the basis of market prices prevailing in 1986-1988 is flawed and does injustice and should be dropped.

However, countries like Australia, Pakistan, Peru, Thailand, Japan, Paraguay, Australia, Mexico and Russia said they could not accept unlimited market price support under the banner of 'public stockholding for food security'.

Export Subsidies

Agricultural export subsidies are to be limited by the developed countries either in value or volume terms so that international prices are not lowered below a point and exports and domestic markets of the developing countries are not priced out. Nairobi Ministerial in 2015 decided to phase them out.

Market Access

Market access means all member countries should throw open their domestic market to agricultural imports by reduction of tariffs and removal of or non-tariff barriers. Countries should undertake

- 'tariffication'- to convert non-tariff barriers(like quotas) to tariffs and
- "bind" their tariffs- to agree to a limit that is the 'bounded rate' and not increase the rates beyond them. The bounded rates are usually high

Special Products and Special Safeguard Mechanisms

Special Products (SP) and Special Safeguard Mechanisms (SSM) are key concerns of developing nations involved in WTO negotiations in agriculture. By using SP and SSM, these nations hope to ensure food security and protect small farmers and the rest of the poor from the vagaries and pressures of international trade in agriculture commodities.

Special Products (SPs)

Special Products (SPs) are agricultural products of particular importance to farming communities in developing countries for reasons of food security, livelihood security and rural development.

It was decided at the Doha Development Round of WTO negotiations that SPs would attract lower levels of tariff reduction commitment than other agricultural products. The rationale is that higher levels of protection on SP will allow developing countries to sustain and develop domestic production of these products, thereby allowing them to protect and enhance livelihoods and food security in their domestic agriculture.

SP is a component of the WTO's Special and Differential (S&D) provision and is available only to developing country members of the WTO.

The Doha Ministerial Declaration recognised the non-trade concerns of developing countries and explicitly mentioned that the Doha Development Round of trade talks would include concessions that will "enable developing countries to effectively take account of their development needs, including food security and rural development".

Since the introduction of the concept of SP, discussions are going on about their selection and treatment. Essentially, the discussion centres on two issues:

- The number of products to be given SP status.
- The modalities to select SPs.

Special Safeguard Mechanisms (SSMs)

Special Safeguard Mechanisms or SSMs are a set of provisions through which a WTO member country can temporarily impose higher than bound tariff rates on the import of a particular agricultural product if there is a sudden surge in imports of that product into the country. The SSM provisions will be available to all developing and least developed country members of the WTO.

SSM is a trade defence mechanism to essentially counter the volatility of international commodity prices. Sudden and sharp declines in the international price of an agricultural commodity could lead to an import surge which, in turn, could damage the viability of domestic production. Countries may find it difficult to check these surges. In these cases, a temporary measure like SSM will allow developing countries to tide over crises. SSM will allow countries to raise tariffs above their bound levels for a limited duration.

A Ministerial Decision on a Special Safeguard Mechanism (SSM) for Developing Countries during the Nairobi ministerial in 2015 recognizes that developing members will have the right to temporarily increase tariffs in face of import surges by using an SSM.

To conclude, Special Products and Special Safeguards Mechanisms together can provide a reasonable level of protection to the agriculture sector of developing countries.

TRIPS

Intellectual property (IP) is the work of intellect or mind to create products that have commercial uses- products like drugs, literature, paintings etc. It is protected like the physical property with trademarks, patents etc. Holders of the patents etc are entitled to the commercial proceeds for a specified time period, exclusively

Types of intellectual property rights:

- A patent may be granted for a new, useful, and non-obvious invention, and gives the patent holder an exclusive right to commercially exploit the invention for a certain period of time (typically 20 years from the filing date of a patent application).

- Copyright is given for creative and artistic works (e.g. books, movies, music, paintings, photographs, and software) and give a copyright holder the exclusive right to control reproduction or adaptation of such works for a certain period of time.
- A trademark is a distinctive sign which is used to distinguish the products or services of different businesses.
- An industrial design right protects the form of appearance, style or design of an industrial object (e.g. spare parts, furniture, or textiles).

The need for agreement on TRIPS arises from the fact that IP generation takes substantial investment and should be incentivised; and the commercial proceeds from international trade in intellectual property are growing in worth.

Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)
Agreement on TRIPS lays down legal standards for the member countries to protect intellectual property by way of copyright rights; geographical indications, industrial designs; integrated circuit layout-designs; patents; monopolies for the developers of new plant varieties; trademarks. It regulates dispute resolution procedures and enforcement procedures.

TRIPS and patents
A patent is an exclusionary right. It grants the right to exclude others from making use of the patented invention for the given period- 20 years from the filing date under TRIPS. In return for the patent, the inventor offers the knowledge with commercial use to be put in public domain after the expiry of the patent. Patent is an incentive to innovate and invent. It sustains research and development (R and D)

Product and process patents
Under WTO, patents can be granted for the process or product. Product patents provide for absolute protection of the product exhausting all the processes that may lead to the product, whereas process patents provide protection in respect of a specific process or method of manufacture. Protection for process patents would not prevent the manufacture of patented products by a process of reverse engineering, where a different process or method from that which has been invented (and patented) is used. For example, national legislation requiring only process patent protection has enabled manufacturers in certain countries to make generic versions of patented medicines. RE (Reverse engineering) made it possible in developing countries to sell medicines cheap. India is a prime example.

TRIPS agreement allows both process and product patents, though only product patents must be awarded for food, pharmaceuticals and chemicals. Patents should be valid for 20 years. Developing countries had 10 years to adopt the TRIPS agreement standards(by 2005) while the advanced countries adopted them by 1995 itself.

Developing countries that had apprehensions about the product patents agreed to it because they benefited under other agreements- for example, services etc. They agreed also because they received concessional terms under TRIPS- grace period of 10 years to adopt product patents in food, pharmaceutical and chemical fields.

Patents (Amendment) Act 2005

As mandated by the TRIPS, it introduced product patent regime for food, chemicals and pharmaceuticals.

Highlights of the Act

- Product patent protection to drugs, foods and chemicals
- availability of Pre-grant and Post-grant challenge
- Incremental innovation involving small scale improvements do ot qualify for new patents
- Introduction of a provision for enabling grant of compulsory license and parallel imports to meet public health crises as provided for in TRIPS

Prior to 1970, 85 per cent of medicines available in India were produced and distributed by multinational corporations (MNCs) and the prices of drugs in the country were among the highest in the world. The 1970 Patents Act of India provided for process patents for pharmaceuticals and agro-chemical products. This enabled the growth of a strong local generic drug industry, which produced the same drugs as the MNCs at relatively low prices. When Indian generic manufacturers such as Cipla, Ranbaxy etc began manufacturing drugs, especially for Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome (HIV/AIDS), at much lower prices, it served a public health cause .The demand for these drugs grew in countries that could not afford to buy these drugs from MNCs.

Indian government accepted TRIPS and product patents because Indian pharma industry is going global and TRIPS helps R and D to capture global pharma market. It attracts MNC investment also. TRIPS is a part of the larger WTO package.

There was a fear that prices of medicines would spiral due to product patents as it can lead to monopoly pricing. But on balance it was felt that because 97 per cent of all drugs manufactured in India are off-patent, prices would be protected. Add to that the fact that Government could control the prices of essential medicines, and the fears of price rise were seen to be largely unfounded.

The other criticism is that patents being given for 20 years will stunt technological development in India.

On the positive side, the Act modernizes the law. It helps Indian pharma companies to grow into MNCs. Indian companies can take up contract research. FDI will flow in with all the technological benefits. Safeguard provisions help meet public health concerns. Drug price Control order (DPCO) gives government the power to regulate the prices and make them affordable. Generic manufacturers can continue in India for product patented drugs by paying a reasonable fee. (Generic medicines are unbranded drugs. They have the same active chemical content as the patented drug. They can be produced for drugs for which either there is a process patent or the product patent expired.)

Public Health Concerns: TRIPS Agreement and Safeguards

In view of the fact that the above mentioned provisions for product patents have the potential to raise prices, safeguards have been built in the TRIPS Agreement called :"parallel imports" and "compulsory licensing."

Parallel importation is the importation of drugs from another country where they are sold at a lower price to meet a public health crisis. It can take place if there are no manufacturers in the country facing the public health crisis and the pharma company that holds the patent for the drug is unwilling to price it affordably for the sake of the ailing public.

Compulsory licensing means Government of the country facing public health crisis can ask for production and sale of the drugs in the country at concessional price based on a compulsory license that it issues. If the patent holder is ready, it gets the license. If not, it allows a government to temporarily override a patent. Government may issue a compulsory license to any other company .This allows generic copies of a patented product to be produced domestically, with compensation paid to the patent holder. Generic copies of patented drugs are much cheaper than the branded drugs. By introducing generics, governments can bring down the price of a certain medicine, thereby ensuring an adequate, affordable stock of the essential drugs.

The compulsory licensing provision arms the government with the power to ensure that medicines are available to patients at affordable rates.

It gives the government the right to allow a generic drug maker to sell cheap but safe versions of patented drugs under certain conditions, without the consent of the patent owner.

Multinational drug companies had demanded strong safeguards against the liberal use of the provision when India's patent law was being framed, but the final legislation had kept the grounds for invoking this provision open-ended.

India's first ever compulsory license was granted by the Intellectual Property Appellate Board (IPAB) in 2012 to Natco Pharma for the production of generic version of Bayer's Nexavar, an anti-cancer agent used in the treatment of liver and kidney cancer. It was established in the Bayer vs Natco case that only 2% of the cancer patient population had an easy access to the drug and that the drug was being sold by Bayer at an exorbitant price of 2.8 lakh INR for a month's treatment. Nexavar was being imported into territory of India. IPAB issued a compulsory license to Natco Pharma, which assured that the tablets would be sold for Rs. 8,880/- per month. 6% of the net sales of the drug would be paid to Bayer by Natco Pharma as royalty.

Health experts and NGOs have welcomed the order saying it would deter innovator companies from selling their drugs at exorbitant prices.

It was the only case when compulsory licensing was invoked.

Incremental Innovations

The Intellectual Property Appellate Board (IPAB) in 2013 revoked GlaxoSmithKline's patent in India for its breast cancer drug Tykerb. IPAB ordered that the claimed invention, the salt version of the original drug, is "obvious" and, therefore, has been revoked.

Earlier in 2013, the Supreme Court in a landmark ruling rejected Swiss drug-maker Novartis' plea for a patent for its anti-cancer drug Glivec — beta crystalline of a known molecule called imatinib mesylate — saying it lacked novelty and failed to meet the country's patenting standards.Novartis enjoyed the patent for Glivec for 20 years and later without adequate value addition, it applied for a new patent for the same drug with mere incremental innovation.

This upholds India's policy stance that incremental innovations lacking "enhanced therapeutic efficacy" as assessed by the patenting authorities will not qualify for patents.

Voluntary Licensing

Gilead Sciences entered into licensing agreements with seven Indian generic manufacturers for its 'Sovaldi' (anti-Hepatitis C drug). This license allows the companies to manufacture and sell the drug in any of the 91 voluntary licence (VL) countries at their own price but at a 7% royalty rate on sales sales. The pool of 91 countries included in the deal comprise of 54 middle income countries and 37 low-middle income countries. It also includes complete technology transfer of Gilead's manufacturing process. A further term is that manufacture of the active pharmaceutical ingredients (APIs) must be in India. Criticism is that the license restricts export to only the 91 listed countries. This excludes many important middle income countries, including China and Brazil which is a serious concern as over 70% of HCV patients are in middle income countries

However, the consensus opinion is that Gilead's licences are an important victory for public health. Gilead leads the way for the rest of Big Pharma who sell life saving drugs and who may follow suit and ethically balance business with public health.

Anti-Counterfeiting Trade Agreement (ACTA)

It is a multinational treaty for the purpose of establishing international standards for intellectual property rights enforcement. The agreement aims to establish an international legal framework for targeting counterfeit goods, generic medicines and copyright infringement on the Internet, and would create a new governing body outside existing forums, such as the World Trade Organization, the World Intellectual Property Organization, or the United Nations.

The agreement was signed in 2011 EU, Australia, Canada, Japan, South Korea, United States and few of their friends.

Supporters have described the agreement as a response to "the increase in global trade of counterfeit goods and pirated copyright protected worksACTA has also been criticised by Doctors without Borders for endangering access to medicines in developing countries. European Union (EU) parliament in 2012 rejected ACTA.

It was a response to India asserting its rights like invocation of compulsory licensing and rejection of incremental innovations for new patents. India termed it piracy when India generics being sent to other developing countries were sought to be confiscated under ACTA.

Sui Generis System

TRIPS agreement provides sui generis option regarding patent laws. Sui generis means generating by itself or of itself. It is a choice given to members in the place of TRIPS norms. That is, they can protect inventions either on the basis of TRIPS pattern of patents or any other indigenous system (sui generis).

Geographical Indications

There are some goods that owe their properties to the region in which they originate and are nurtured. The climate, soil and the native efforts of the region account for their fame, utility and qualities. Some Indian examples are: Basmati Rice, Darjeeling Tea, Kanchipuram Silk Saree, Alphanso Mango, Nagpur Orange, Kolhapuri Chappal, Bikaneri Bhujia, Agra Petha, Mysore silk, Nilgiri tea, Coorg coffee, Mysore sandal products, Malabar pepper etc.Such products are given Geographical Indications. GI means any indications which identify the goods as originating in the territory of a country or a region or locality in that territory. It is used to identify agricultural, natural or manufactured goods.The manufactured goods should be produced or processed or prepared in that territory. It should have a special quality or reputation or other characteristics

There are many benefits when a product or process is given a GI.

- It confers legal protection to Geographical Indications in India
- Prevents unauthorised use of a Registered Geographical Indication by others
- It provides legal protection to Indian Geographical Indications which in turn boost exports.
- Protects the consumers
- It promotes economic prosperity of producers of goods produced in a geographical territory.

There are rules as to who can apply for a GI. Any association of persons, producers, organisation or authority established by or under the law can apply but the applicant must represent the interest of the producers.It is generally not granted to an individual. It is given to a product for a specific period of time (10 years in India). It can be renewed from time to time for further period of 10 years each.

GIs prevent spurious goods from entering the market. It helps maintain quality. There is greater accountability, too. It boosts exports.

GI is different from a trade mark. A trade mark is a sign which is used in the course of trade and it distinguishes goods or services of one enterprise from those of other enterprises.Whereas a geographical indication is an indication used to identify goods having special characteristics originating from a definite geographical territory.

In 1999, the Parliament passed the Geographical Indications of Goods (Registration and Protection) Act, 1999. This Act seeks to provide for the registration and protection of geographical indications relating to goods in India. The Act is administered by the Controller General of Patents, Designs and Trade Marks- who is the Registrar of Geographical Indications. The Geographical Indications Registry is located at Chennai. The Geographical Indications of Goods (Registration and Protection) Act, 1999 came into force in 2003. This is a sui generic legislation intended to give better protection to GIs of India.
Hundreds of items items including Kancheepuram silk and Darjeeling tea from various states enjoy the protection.Some such products are: Nagpur orange, Kangra painting, Moradabad Metal Craft, Firozabad Glass, Kannauj Perfume, Kanpur saddlery, Saharanpur wood craft, Dharmavaram handloom pattu sarees and paavadas, Warli painting, Kolhapur jaggery, Thewa art work and three Manipur-based knit works Moirang phee, Wangkhei phee and Shaphee lanphee.

Himachal Pradesh's Kangra Arts Promotion Society sought GI saying the art form was invogue in the foothills of western Himalayas and pigments used in Kangra paintings are derived from organic and inorganic sources. The central theme of Kangra paintings is love and the recurring themes are six seasons or music or Krishna-Radha or Shiva-Parvati.

Manipur government's department of commerce has sought GI for Moirang phee, Wangkhei phee and Shaphee lanphee, which are shawls/fabric with unique needle work, to be worn as special recognition of honour.

Kolhapur jaggery seeks unique recognition for its white and golden chemical-free product having no added colour, chemicals, additives and flavours. Its application said the jiggery had natural sweetener and contained glucose, vitamins, calcium and minerals.

India has more than 300 GI products registered so far. Also known as the Bird's Eye Chilli, Mizo Chilli is given GI. The Hyderabad Haleem is one of the few Indian dish to have got a GI status. So is the famous traditional craft of Rajasthan: Blue Pottery made in Jaipur. Also, Pattachitra is a form of art that originated in Odisha. It is a pictorial narrative painted on a cloth-based scroll. Generally, the scrolls depict the tales of Hindu gods and goddesses.

Famous Banganapalle mangoes of Andhra Pradesh and Tulapanji rice of West Bengal are among the seven commodities that have been granted Geographical Indications 2017-18.The other five products which have received this tag this year include Pochampally Ikat of Telangana; Gobindobhog Rice of West Bengal; Durgi Stone Carvings and Etikoppaka Toys of Andhra Pradesh; and Chakshesang Shawl of Nagaland.In 2016-17, as many as 33 items got GI registration.

Karnataka with 32 GI products topped the national list followed by Tamil Nadu (24), Andhra Pradesh (22) and Kerala (20).

French champagne and cognac, the USA's Napa Valley, the UK's Scotch whisky and Mexican Tequila are among foreign products that have acquired GI tag in India.

Joynagarer moa is a seasonal Bengali sweetmeat delicacy made of puffed rice and palm jaggery which got a ***Geographical Indication*** tag in 2015.

Rasgolla

There was a legal issue over the origins of rasgolla between Odisha and West Bengal. Odisha has staked claim associating it with a centuries old ritual of Lord Jagannath. West Bengal always thought of rasagolla as its own.

Geographical Indications (GI) registry announced in November 2017 that the rosogolla originated in West Bengal.

Apeda

APEDA is a non-trading, statutory body created under the Agricultural and Processed Food Products Export Development Authority Act, 1985 ("the APEDA Act"), which provides for the development and promotion of export of certain agricultural and processed food products from India, including Basmati rice. The APEDA Act was amended in 2008 to confer it powers to protect intellectual property in special products such as Basmati rice. As such, APEDA is qualified to be an applicant under the Geographical Indications of Goods (Registration& Protection) Act, 1999 ("GI Act").

Basmati 2016

GI tag was given to APEDA.National Agricultural Research System, under the ministry of agriculture and cooperation has recognised only the states of Punjab, Haryana, Himachal Pradesh, Delhi and Uttarakhand, the western part of Uttar Pradesh and two districts of Jammu and Kashmir (namely, Jammu and Kathua) as the traditional geographical indication for Basmati rice cultivation.

This means that the basmati rice produced in these regions are considered an intellectual property and will be acknowledged as Basmati rice, while the Basmati rice produced in other places will not be considered Basmati rice, as APEDA does not consider areas other than those with the GI tag for Basmati rice production. Madhya Pradesh contested the fact that it was excluded even as 13-14 districts in MP grow it.

IPR Policy 2016

GOI recently approved the National Intellectual Property Rights (IPR) Policy which lays down an institutional mechanism for implementation, monitoring and review. It aims to incorporate and adapt global best practices to the Indian scenario. This aims to bring together the strengths of the Government, research and development organizations, educational institutions, corporate entities including MSMEs, start-ups and other stakeholders in the creation of an innovation-conducive environment, which stimulates creativity and innovation across sectors, as also facilitates a stable, transparent and service-oriented IPR administration in the country.The National Intellectual Property Rights (IPR) Policy endeavors for a "Creative India; Innovative India

Objectives:

The Policy lays down the following seven objectives:

- IPR Awareness: Outreach and Promotion - To create public awareness about the economic, social and cultural benefits of IPRs among all sections of society.
- Generation of IPRs - To stimulate the generation of IPRs.
- Legal and Legislative Framework - To have strong and effective IPR laws, which balance the interests of rights owners with larger public interest.
- Administration and Management - To modernize and strengthen service-oriented IPR administration.
- Commercialization of IPRs - Get value for IPRs through commercialization.
- Enforcement and Adjudication - To strengthen the enforcement and adjudicatory mechanisms for combating IPR infringements.
- Human Capital Development - To strengthen and expand human resources, institutions and capacities for teaching, training, research and skill building in IPRs.

The action by different Ministries/ Departments shall be monitored by DIPP which shall be the nodal department to coordinate, guide and oversee implementation and future development of IPRs in India.

The Policy recognizes that India has a well-established TRIPS-compliant legislative, administrative and judicial framework to safeguard IPRs, which meets its international-obligations while utilizing the flexibilities provided in the international regime to address its developmental concerns. It reiterates India's commitment to the Doha Development Agenda and the TRIPS agreement.

While IPRs are becoming increasingly important in the global arena, there is a need to increase awareness on IPRs in India, be it regarding the IPRs owned by oneself or respect for others' IPRs. The importance of IPRs as a marketable financial asset and economic tool also needs to be recognised. For this, domestic IP filings, as also commercialization of patents granted, need to increase. Innovation and sub-optimal spending on R&D too are issues to be addressed.

The broad contours of the National IPR Policy are as follows:

Vision is to create an India where creativity and innovation are stimulated by Intellectual Property for the benefit of all; where intellectual property promotes advancement in science and technology, arts and culture, traditional knowledge and biodiversity resources; where knowledge is the main driver of development, and knowledge owned is transformed into knowledge shared.

Mission is to stimulate a dynamic, vibrant and balanced intellectual property rights system in India to:

- foster creativity and innovation and thereby, promote entrepreneurship and enhance socio-economic and cultural development, and
- focus on enhancing access to healthcare, food security and environmental protection, among other sectors of vital social, economic and technological importance.

PPVFR Act

The Protection of Plant Variety and Farmers Right Act, 2001 (PPVFR Act) was made to set up an effective system for protection of plant varieties, the rights of farmers and plant breeders, and to encourage the development and cultivation of new varieties of plants. The Act was enacted to grant intellectual property rights to plant breeders, researchers and farmers who have developed any new or extant plant varieties. The rights granted under this Act are heritable and assignable and only registration of a plant variety confers the right. Essentially Derived Varieties (EDV) can also be registered under this Act and it may be new or extant. Farmers are entitled to save, use, sow, re-sow, exchange or sell their farm produce including seed of a registered variety in an unbranded manner. Farmers' varieties are eligible for registration and farmers are totally exempted from payment of any fee in any proceedings under this Act. The period of protection for field crops is 15 years and for trees and vines is 18 years and for notified varieties it is 15 years . he rights granted under this Act are exclusive right to produce, sell, market, distribute, import and export the variety. Civil and criminal remedies are provided for enforcement of breeders' rights and provisions relating to benefit sharing and compulsory licence in case registered variety is not made available to the public at reasonable price are provided. Compensation is also provided for village or rural communities if any registered variety has been developed using any variety in whose evolution such village or local community has contributed significantly.

GATS

The General Agreement on Trade in Services (GATS) is the set of regulations that governs trade in services among the WTO countries. GATS, which is one of the three agreements along with AoA and agreement on TRIPS has rules that cover a broad range of economic activity such as health care, education, telecommunications, banking, insurance, business process offshoring (BPO), tourism and so on. India is interested in these fields due to its core competence.

With GATS, multilateral trading system extends to services for the first time. GATT, its predecessor did not cover services.

In services, members of the WTO offer one another most favoured nation (MFN) status as they do for physical goods. MFN means grant of non-discriminatory trade- normal trade.

GATS negotiations are conducted among members bilaterally on the basis of requests and offers.Requests can be made by any WTO member in any service sector to any member. Each member makes bilateral requests to its major trading. These requests ask for full market access and national treatment commitments.

The GATS agreement covers four modes of supply for the delivery of services in international trade:

	Criteria	Supplier Presence
Mode 1: Cross-border supply	Service delivered within the territory of the Member, from the territory of another Member	Service supplier not present within the territory of the member
Mode 2: Consumption abroad	Service delivered outside the territory of the Member, in the territory of another Member, to a service consumer of the Member	
Mode 3: Commercial presence	Service delivered within the territory of the Member, through the commercial presence of the supplier	Service supplier present within the territory of the Member
Mode 4: Presence of a natural person	Service delivered within the territory of the Member, with supplier present as a natural person	

Trade Negotiations

While WB and IMF operate on weighted voting basis, WTO decisions, such as adopting agreements (and revisions to them) are officially determined by consensus of all members. The advantage of consensus decision-making is that it encourages efforts to find the most widely acceptable decision. Small countries and low income countries also weigh for as much as rich countries.

In reality, WTO negotiations proceed not by consensus of all members, but by a process of informal negotiations between small groups of countries. Such negotiations are often called "Green Room" negotiations (after the colour of the WTO Director-General's Office in Geneva), or "Mini-Ministerials", when they occur in other countries.

WTO and safeguard duty

In the technical language of the World Trade Organization (WTO) system, a safeguard is used to restrain international trade in order to protect a certain home industry from foreign competition. A member may take a "safeguard" action (restrict import of a product temporarily) to protect a specific domestic industry from an increase in imports of any product which is causing, or which is threatening to cause, serious injury to the domestic industry that produces like or directly-competitive products.Safeguards are usually seen as responses to fair trade behaviour, as opposed to unfair trade practices such as

- Dumping
- Subsidy that attracts countervailing duty

As such they are used only in very specific circumstances, with compensation, and on a universal basis, i.e., a member restricting imports for safeguard purposes will have to restrict imports from all other countries.

Safeguard duty in India

India imposed safeguard duty on steel imports as the country faced cheap steel imports flooding its market and thus protect the domestic steel sector in 2015. It aims to deter countries such as China, South Korea and Japan from undercutting local mills, the first such move in more than 15 years. The safeguard duty expires in 200 days from the day it comes into effect. Critics say that it is counter productive as it promotes inefficiency but the answer is that it is temporary.

Countervailing duties (CVDs)

Some countries subsidies their products and make them cheap to be exported. The importing country then takes recourse to CVDs. Thus, CVDs are known as anti-subsidy duties. CVDs are trade import duties imposed to neutralize the negative effects of subsidies. They are imposed after a domestic investigation finds that a foreign country subsidizes its exports, injuring domestic producers in the importing country. According to World Trade Organization rules, a country can launch its own investigation and decide to charge extra duties, provided such additional duties are in accordance with the GATT Article VI and the GATT Agreement on Subsidies and Countervailing Measures.

India resorted to CVDs on import of certain Chinese flat steel products for a period of five years in 2017. The Commerce Ministry's investigation arm - Directorate General of Anti-Dumping and Allied Duties (DGAD) - in its probe had concluded that the domestic steel industry has lost sales opportunities which is a direct consequence of subsidised imports from China.The decision to impose CVD was taken by the Finance Ministry after the DGAD's recommendation.

It is a country specific duty which is imposed to safeguard domestic industry against unfair trade subsidies provided by the local governments of the exporting nations. While DGAD recommends the duty, Finance Ministry imposes it.

Anti-Dumping Duty

Dumping refers to pricing a export. It is the act of charging a lower price in a foreign market for a product than the price of the same product in a domestic market or in a third country market. It is selling at less than "fair value". Under the World Trade Organization (WTO) Antidumping Agreement, dumping is prohibited if it causes or threatens to cause material injury to a domestic industry in the importing country. Otherwise it is not prohibited.

Dumping is a kind of predatory pricing in international trade. The objective of dumping may be to use the full capacity of the industry; get relieved of the extra stock; or to increase market share in a foreign market by driving out competition and thereby create a monopoly situation where the exporter will be able to unilaterally dictate price and quality of the product.

The anti-dumping laws in India in the Customs and Tariffs Act, 1975 (Amended 1995) and The Anti-dumping rules state that "If any article is exported from any country or territory to India at less than its normal value, then, upon the importation of such article into India, the central government may by notification in the official gazette, impose an anti-dumping duty not exceeding the margin of dumping in relation to such article." As of 2017, 353 anti-dumping cases had been initiated by Directorate General of Anti-Dumping and Allied Duties (DGAD) out of which in one hundred and thirty cases, anti-dumping measures are in force.

In October 2017, India imposed anti-dumping duty on stainless steel from US, EU and China. Although antidumping measure has been provided as a vital rule to promote free trade, some instances of antidumping practices suggest that antidumping measures have been used as a tool of protectionism, as "safety valves" – to ease competitive pressure in domestic market.

Doha Round

Doha Round of Trade talks under the WTO began in 2001 in Doha, the capital of Qatar. Doha was the fourth ministerial after the WTO came into force- Singapore, Geneva, Seattle and Doha being the earlier three. It is called Doha Round because the talks were started in Doha. It is called Doha Development Round as it promised to address the issues that were important to the developing countries like India. It has lasted the longest and is yet to complete (2014).

Developing countries believed that they received a raw deal under the Marrakesh Treaty in matters related to agriculture, patents and so on. So they needed additional inducements to agree to the new round of talks. Thus, naming the Round as a Development Round was to pacify the developing countries.

Doha Round aims at further liberalizing international trade for agriculture, industry and services. The need for expeditious completion of the round is because trade as an engine of growth is needed ever more in the present world when global recession has reduced incomes of hundreds of millions of people due to collapse of demand. Also, protectionism is being chosen as a politically convenient strategy by countries including USA. It is a threat to globalization of trade and hurts all members.

Bali Package 2013

The Bali Package is a trade agreement resulting from the Ninth Ministerial Conference of the World Trade Organization in Bali, Indonesia, 2013. It is aimed at lowering global trade barriers. The package includes provisions for lowering import tariffs and agricultural subsidies, with the intention of making it easier for developing countries to trade with the developed world in global markets. Another important target is reforming customs bureaucracies and formalities to facilitate trade. The package covers the following:

Trade facilitation: Agreement on Trade Facilitation will reduce red-tape and streamline customs. It will be legally binding, require some expense and a certain level of technology. LDCs will be supported in building capacities to implement the changes. Although, some critics worry governments may have to prioritize funds for trade facilitation over other important areas such as public health or education.

Agriculture: Covers food security in developing countries.

India and the Bali Package
India had not yielded on the food security issue in the WTO Bali ministerial and, in fact, secured some concessions on the trade facilitation agreement (TFA).

The Bali draft says that till a permanent solution is reached (on the question of issues of asymmetry in the Agreement on Agriculture), members would refrain from approaching the dispute-settlement body against breach of the 10% cap on price-support based food subsidy. This is the peace clause discussed above.

Nairobi 2015

At the Nairobi Ministerial, fissures emerged between the developed and developing countries.

Nairobi declaration: 'We recognise that many members reaffirm the Doha Development Agenda... Other members do not reaffirm the Doha mandates, as they believe new approaches are necessary to achieve meaningful outcomes in multilateral negotiations. Members have different views on how to address the negotiations.'

The outcome of WTO's ministerial conference at Nairobi was mixed. On a positive note, all members agreed for the first time to a legally binding deal to promote agricultural trade by removing subsidies for farm exports. As a net exporter of agricultural products, the deal on agriculture holds potential for India.

The Nairobi ministerial came at a turning point for global trade: Three major stakeholders among developed countries, the US, EU and Japan, have begun to stitch together far reaching regional trade deals. Consequently, their need for WTO and the extent of concessions they are willing to offer there is declining. This did not bode well for many developing countries such as India as WTO provides a better platform to secure a fair trade deal. Even if multilateral trade deals in WTO have been limited, the dispute settlement mechanism of the organisation has worked to the advantage of developing countries. WTO does indeed remain relevant.

The threat to WTO in 2017 is different: deglobalisation due to Donald Trump's isolationism, Brexit and nationalism rising in Europe are rolling back the progress.

Trade Facilitation

Trade facilitation looks at how procedures and controls governing the movement of goods across national borders can be improved to reduce associated cost burdens and maximise efficiency while safeguarding legitimate regulatory objectives. Trade facilitation is "the simplification, standardization and harmonisation of procedures and associated information flows required to move goods from seller to buyer and to make payment".Occasionally, the term trade facilitation is extended to address a wider agenda in economic development and trade to include: the improvement of transport infrastructure, the modernization of customs administration etc.

Some examples:
Fiscal: Collection of customs duties, excise duties and other indirect taxes; payment mechanisms.

Safety and security: Vehicle checks; immigration and visa formalities.

Environment and health: Phytosanitary, veterinary and hygiene controls; health and safety measures; **Consumer protection:** Product testing; labelling; conformity checks with marketing standards (e.g. fruit and vegetables)

Trade policy: Some organisations promoting trade facilitation emphasis the cutting of red tape in international trade as their main objective. Propagated ideas and concepts to reforming trade and customs procedures generally resonate around the following themes:

- Simple rules and procedures
- Avoidance of duplication
- Alignment of procedures and adherence to international conventions
- Transparent rules and procedures
- Mechanisms for corrections and appeals
- Fair and consistent enforcement
- Time-release measures
- Standardisation of documents and electronic data requirements
- Automation
- International electronic exchange of trade data
- Single Window System

A major milestone for the global trading system was reached on 22 February *2017* when the first multilateral deal concluded in the 21 year history of the *World Trade Organization entered into force* following its ratification by two-thirds of the *WTO* membership, including India.

West and the Doha Round

Developed countries wanted to walk away from the multilateral trading system for many reasons. It served their purpose and there was no point in keeping faith in it and it was time to scale up. Developing countries became assertive. They were insisting that the West should their side of the pact- scrapping of export subsidies on agricultural goods etc. Also, the public health concerns of the TRIPS were being invoked and that was hurting the commercial interests of their pharma giants. Developments in the WTO, especially in the Doha Round negotiations, were forcing the big powers to share the economic pie with the emerging economies.

Mega regionals like TPP and the Transatlantic Trade and Investment Partnership (TTIP) between the US and the EU held hope for them.

India and other developing countries argued for freer mobility of labour in global services trade and to therefore provide an opportunity to their workforce to benefit from trade.

World Trade Organization (WTO) and e-commerce

Advanced countries at WTO want negotiations for "e-commerce," but developing countries oppose it. Proponents say small- and medium-sized enterprises (SMEs) will benefit using e-commerce. But SMEs are the least likely to be able to compete with giant transnational corporations, which enjoy the benefits of scale, historic subsidies, technological advances, strong state-sponsored infrastructure.

The contentious issues are

- requirements to hold data locally
- taxation for digitally traded goods to pay tax

Data is now the most valuable resource. WTO will allow corporations to transfer data around the world without restrictions would deny the right of countries to benefit from their own data and intelligence in the future. It also has serious implications for both data privacy and consumer protection. What WTO proponents call "localization barriers" are actually the tools that countries use to ensure that they benefit from the presence of transnational corporations to advance their own development.

WTO members do not currently have a mandate to write new global rules on "e-commerce."
India has been opposing attempts, mainly by the rich nations, to incorporate e-commerce in the ongoing Doha Round talks of the WTO on the grounds that it would lead to the 'dilution' of the 'development agenda' (that is to improve the trading prospects of developing countries) of the negotiations.While it is not against informal and non-binding discussions on issues like e-commerce, India has said these topics cannot be made part of the formal agenda of WTO negotiations without consensus among all the WTO member nations.

Indian companies have reservations regarding a global, regional or bilateral pact on e-commerce fearing it would favour multinational firms. It involves policies on cybersecurity and hacking, fake goods and piracy, net-neutrality as well as safeguards to protect consumer data and ensure privacy. Fear is that it could result in significant opening of markets for goods and services and curtail the policy space of governments to regulate and nurture its domestic producers.

In the context of discussions on ecommerce, small and medium enterprises (SMEs) have come into focus. Some are saying that it will lead to gains for the MSMEs. But critics warn that MSMEs in India and in other developing countries face insurmountable problems in embracing e-commerce especially for international trade due to lack of e-commerce readiness.

India faces serious challenges in four areas in facilitating e-commerce especially international/ cross border: hard and soft infrastructure, legal framework, taxes and administration. For enabling e-commerce the entire logistics handling at ports/ airports has to be strengthened.

TBT and SPS

The Agreement on Technical Barriers to Trade is an international treaty administered by the World Trade Organization.

TBT exists to ensure that technical regulations, standards, testing, and certification procedures do not create unnecessary obstacles to trade. The agreement prohibits technical requirements created in order to limit trade, as opposed to technical requirements created for legitimate purposes such as consumer or environmental protection. The TBT agreement is closely linked to the Agreement on the Application of Sanitary and Phytosanitary Measures.

The Agreement on the Application of Sanitary and Phytosanitary Measures - also known as the SPS Agreement is an international treaty of the World Trade Organization. Under the SPS agreement, the WTO sets constraints on member-states' policies relating to food safety (bacterial contaminants, pesticides, inspection and labelling) as well as animal and plant health (phytosanitary) about imported pests and diseases.

For example, Indian measures against imports of toys from China on safety considerations.

Singapore Issues

The first ministerial conference was held in Singapore in 1996. Rich countries introduced four issues that came to be known as the "Singapore issues"

- Investment by foreign companies on same terms as national companies
- Competition laws that deal with monopolies and cartels , price fixing, mergers etc
- Transparency in government procurement and creating a level playing field for all players- domestic and foreign
- trade facilitation: standardization and simplification of customs procedures

The last one came into force in 2017 but the other three continue to be opposed. Poor countries do not allow them to be brought into the agendas they feel that they might damage their economic interests.The opposition of the poor countries rests on the following grounds.

- Doha agenda should not be overloaded and the existing issues need to be implemented first like cutting agricultural subsidies.
- large, multinational corporations dominate and threaten the young and growing domestic firms
- they are too intrusive
- policy should be the prerogative of the government . It should be made at its own discretion because such policy depends on a country's unique market conditions

The common theme of three of the issues (investment, competition, government procurement) is to maximise the rights of foreign enterprises to have market access to developing countries through their products and investment; to reduce to a minimum the rights of the host government to regulate foreign investors; and to prohibit government from measures that support or encourage local enterprises.

U.S. and the E.U support the introduction of the Singapore issues arguing that unfair competition/investment and procurement policies distort trade as much as tariffs do, and therefore should be regulated by the WTO rather than left up to individual country governments. However, the US and other developed nations should first implement their commitments in agriculture before expanding the agenda.

India and BITs

A bilateral investment treaty (BIT) is an agreement establishing the terms and conditions for private investment by nationals and companies of one country in another . BITs are signed as part of trade pacts. Its terms include fair and equitable treatment, protection from expropriation and full protection and security. They document a country's obligations on the protection of foreign investment under international law. The distinctive feature of many BITs is that they allow for an alternative dispute resolution mechanism, whereby an investor whose rights under the BIT have been violated could have recourse to international arbitration, often under the auspices of the ICSID (International Center for the Settlement of Investment Disputes of World Bank Group), rather than suing the host State in its own courts.This process is called investor-state dispute settlement.

India terminated the bilateral investment treaties (BITs) it had signed with 58 countries-they were allowed to expire on April 1, 2017. The reason behind the termination is that India wants to renegotiate its investment treaties based on India's new model BIT. The ministry of finance is the nodal body dealing with BITs.

The recently adopted Indian model BIT tilts the balance towards the host state's regulatory power by severely limiting the substantive and procedural protection to foreign investment. Even if there is no BIT in place, the country's laws will continue to protect all the investments.

The new model BIT has clauses that are progressive for out sovereignty and policy space: reducing the extent of most-favoured nation status and national treatment clauses. The contentious change is India's insistence that foreign firms can turn to investor-State dispute settlement mechanisms — in other words, outside arbitration — only after exhausting local judicial remedies. GOI says this is necessary to stop the hundreds of arbitration cases filed against the government by foreign firms. Foreign firms say the cases are filed because the government is filing taxation and retrospective taxation and other cases against them.

As per Indian BIT's, investors can access ICSID (International Centre for Settlement of Investment Disputes) or can approach for arbitration under UNCITRAL (United Nations Commission on International Trade Law) rules. As India is not a party to ICSID convention, the Foreign investors can access Additional Facility Rules of ICSID for dispute resolution.

GOI set up a High Level Committee (HLC) in the Ministry of Law and Justice under **Mr. Justice B N Srikrishna, Retired Judge, Supreme Court in 2016** based on the Government's commitment to speedy resolution of commercial disputes and to make India an international hub of arbitration. The terms of reference of the Committee required it to examine the effectiveness of existing arbitration mechanisms, studying the functioning and performance of arbitral institutions in India and identifying gaps regarding manpower, skills, infrastructure, and funding in such institutions. Report was submitted in 2017.

Solar Panels

National Solar Mission is one of the several initiatives that are part of the National Action Plan on Climate Change with a solar power capacity target of 100 GW by 2022.

Guidelines for solar thermal mandated 30% project to have domestic content. A controversy emerged between power project developers and solar PV equipment manufacturers. The former camp prefers to source modules by accessing highly competitive global market to attain flexible pricing, better quality, predictable delivery and use of latest technologies.The latter camp prefers a controlled/planned environment to force developers to purchase modules from a small, albeit growing, group of module manufacturers in India. Manufacturers want to avoid competition with global players at this nascent stage of development and the government is convinced that to incentivise growth of local industry.

US Trade Representative has filed a complaint at World Trade Organization challenging India's domestic content requirements, citing discrimination against US exports and that industry in US which has invested hugely will be at loss. US insists that such restrictions are prohibited by WTO.

India however claims that it is only an attempt to grow local potential and to ensure self sustenance and reduce dependence. In 2016, WTO rejected India's case thus upholding national treatment clause of its charter.

H1B Visa Fee Hike and WTO-Compatibility

India launched a complaint against the US at the World Trade Organisation over changes to visas for skilled workers. USA changed rules to raise fees for L1 and H1B working visas and also placed more restrictions on the number of those visas awarded. The move is the first step in initiating a dispute at the WTO.

India's complaint centres on a doubling in the fees for H1B and L1 visas that was passed by Congress in 2015 as well as a congressionally mandated cap that limits the number of visas awarded to 65,000 each year.

India alleged that the U.S. is violating its obligations under General Agreement on Trade in Services (GATS), a binding agreement for all WTO member countries, as well as the GATS Annex on Movement of Natural Persons Supplying Services, to not discriminate against or between non-U.S. service providers. India contends that the 2010 and 2015 fee increases do not comply with "most-favoured-nation (MFN) treatment" under the GATS, which generally prohibits a WTO member from treating the services and service suppliers of one WTO member less favorably than it treats comparable services and suppliers of another. While the fee hike does not specifically mention Indian companies, such a provision has been tailored in such a manner that it impacts only Indian IT companies, India alleged.

The H-1B is a visa in the United States under the Immigration and Nationality Act which allows U.S. employers to employ foreign workers in specialty occupations like biotechnology, physical sciences, social sciences, medicine and health, etc in which foreign worker must possess at least a bachelor's degree .H-1B work-authorization is strictly limited to employment by the sponsoring employer.

An L-1 visa is a visa document used to enter the United States for the purpose of work.

L-1 visas are available to employees of an international company with offices in both the United States and abroad. The visa allows such foreign workers to relocate to the corporation's US office after having worked abroad for the company.

Generalized System of Preferences (GSP) and India

Generalized System of Preferences (GSP) is a preferential tariff system extended by developed countries to developing countries. It involves reduced MFN Tariffs or duty-free entry of eligible products exported by beneficiary countries to the markets of donor countries.

Indian exporters benefit by way of reduced tariff or duty free entry of eligible Indian products

Reduction or removal of import duty on an Indian product makes it more competitive to the importer - other things (e.g. quality) being equal.

This tariff preference helps new exporters to penetrate a market and established exporters to increase their market share and to improve upon the profit margins, in the donor country.

Rules of Origin

A. Rules of origin comprise a set of requirements laid down by the importing country, which must be fulfilled by a product to be eligible for preferential tariff treatment upon import in that country. In sum, they are a set of criteria that define nationality of traded products.

The rules of origin are aimed at reserving, as far as possible, the benefit of the preferential system to the country for which it is intended, and to prevent third countries' goods from unduly exploiting the system.

For example, each SAFTA country retains its external tariffs vis-à-vis non-members' goods and levies a lower tariff on the goods "originating" from the other SAFTA members. Rules of origin provide the basis for customs officials to make determinations about which goods are entitled preferential tariff treatment under the SAFTA.

Unless certain value addition is made in the member countries, FTAs and PTAs do not accord tariff concession.

Regional Trading Arrangements (RTA) and Multilateralism under WTO
PTA/FTAs should be understood in the context of economic integration among countries- usually in a geographical region like EU, Asean, NAFTA, SAFTA etc.

Preferential Trade Arrangement is the first step towards integration wherein the members agree to trade with one another at a concessional tariff. The same concessional tariff is denied to non-members.

The next step is duty-free trade and elimination of quotas. It is called FTA.

The customs union is a form of economic integration involving two or more sovereign states that stipulates that there be free trade between the member states and a common tariff policy on trade with non-member states.

Later comes common market where there is a free movement of labour, capital, goods and services.

If the common market has the same currency, it is called a monetary union.

The last stage is the economic union in which members have a common currency and fiscal and monetary policies. Presently, the EU is the only example of a monetary and economic union.

RTAs are allowed under the WTO. Most of the main RTAs today were there when WTO was born in 1995. The reason is that the aims of the two are the same: economic integration on a wider and deeper scale.Tariffs being a barrier to trade, reducing and removing them boosts trade

- complementarities are established among the regional members
- trade creation is another argument- that is, due to free trade among members more trade is created
- higher production and greater efficiency due to enhanced competition

- free trade within a region is a beginning towards globalization as it prepares the countries to face global competition and secure benefits
- in fact, FTAs catalyse globalization as the benefits at the regional level will accelerate the pace towards a larger scale
- non-economic factors are another major incentive as more peaceful relations among the regional countries will have a a virtuous effect.

The following are the problems

- Trade diversion takes place. It means trade is not created but is merely diverted. Imports are made from the FTA member due to price advantage ,even if a non-member is more efficient
- Also, these arrangements have other undesirable fallout like loss of revenue due to tariff reduction or removal and

Regional economic integration without prejudicing globalization and multilateralism is carried forward with 'open regionalism'. "Open regionalism" is defined as external liberalization by trade blocs (PTAs and FTAs) that is, the reduction in barriers on imports from non-member countries that is undertaken when member countries liberalize the trade among themselves. Even as tariffs are reduced for the non-member countries, the level of reduction need not be the same as it is among the member countries.

While the regional trade blocs erode the MFN principle, the following arguments are advanced to show that they promote globalization

- regional free trade is easier to implement in comparison to globalization as the latter is difficult to accept by the people of the country
- domestic lobbies for protectionism can be resisted more successfully by the government at the regional level initially and later at the global level
- scope for deeper integration at the regional level- not only trade but also comprehensive economic cooperation(investment, collaborations etc)
- open regionalism is a step towards making regional trade blocs global.

Some regional trading arrangements in force and in negotiations:

- The **Transatlantic Trade and Investment Partnership** (also known as the Transatlantic Free Trade Area) is a proposed free-trade agreement between the European Union and the United States. The deal is estimated to boost the EU's economy by €120 billion, the US economy by €90 billion and the rest of the world by €100 billion. Talks began in July 2013 and may be finalized by the end of 2014.
- **Regional Comprehensive Economic Partnership** (RCEP) is a Free Trade Agreement (FTA) scheme of the 10 ASEAN Member States and its FTA Partners (Australia, China, India, Japan, Korea and New Zealand).
- **Trans-Pacific Partnership (TPP)** is a trade agreement under negotiation Australia, Brunei, Chile, Canada, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam. The TPP is intended to be a "high-standard" agreement aimed at emerging trade issues in the 21st century. Trump pulled USA out of it.

- ASEAN Free Trade Area (AFTA) with Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand, Cambodia, Laos, Myanmar, Vietnam.
- European Free Trade Association (EFTA) between Iceland, Norway, Switzerland and Liechtenstein
- North American Free Trade Agreement (NAFTA) between Canada, U.S. and Mexico
- South Asia Free Trade Agreement (SAFTA) between India, Pakistan, Nepal, Sri Lanka, Bangladesh, Bhutan and the Maldives
- Mercosur is a Regional Trade Agreement (RTA) between Brazil, Argentina, Uruguay and Paraguay, founded in 1991 by the Treaty of Asunción, which was later amended and updated by the 1994 Treaty of Ouro Preto. Its purpose is to promote free trade and the fluid movement of goods, peoples, and currency
- The Andean Community of Nations (CAN) is a trade bloc comprising the South American countries like of Bolivia, Colombia, Ecuador and Peru. Its headquarters are located in Lima, Peru.
- The Economic Community of West African States (ECOWAS) is a regional group initially of sixteen countries, founded in 1975 on the basis of Treaty of Lagos.
- The Southern African Development Community (SADC) seeks to further socio-economic cooperation and integration as well as political and security cooperation among 14 southern African countries.

Groups

G-10 are major food-importing economies like Japan, South Korea, Taiwan, Norway, Switzerland Israel etc. It has rich and poor representatives(Bulgaria etc).

Group of 20 (also called **G20+**) is a bloc of developing nations established in the 5th Ministerial WTO conference, held in Cancun in 2013. It stands for drastic reduction in agricultural subsidies by industrialized nations and opposed further liberalization.

G-33 comprises developing countries like India, Indonesia etc with defensive farm interests that involves protecting farmers from imports. It is an alliance of developing countries on Special Products (SP) and Special Safeguard Mechanism (SSM) in the ongoing agriculture negotiations. It has 42 members including India, Indonesia etc .They are net-food importing developing countries.

While G-20 consists of developing countries with exporting interests as well as defensive interests, the G-33 includes only those developing countries with defensive interest in agriculture.

G-90 is the group of Least developed countries (LDCs) along with other countries from Africa, the Caribbean and Pacific formed G-90 during the Cancun conference in 2003.

What has India gained from the WTO?

- MFN status in the 164 member body
- Rule based trading system
- Impartial trade dispute settlement process unlike earlier when there was bilateral pressures and threats to fall in line(Super and Special 301 of the USA)